

INVESTMENT SECTION





ND Retirement and Investment Office

*Teachers' Fund for Retirement
State Investment Board*

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November 17, 2008

Members of the
North Dakota State Investment Board
North Dakota Teachers' Fund for Retirement Board

Dear Board Members:

It is a pleasure to provide the following summary of the North Dakota Pension and Insurance pools' investment portfolios and market environment for the fiscal year ended June 30, 2008.

Introduction

For the fiscal year ended June 30, 2008, the \$3.8 billion North Dakota Pension investment pool portfolio experienced a net total return of -6.40%. The Teachers' Fund for Retirement, a participant in the Pension pool, had a net loss of 7.51% for the year. The Insurance investment pool, valued at \$1.5 billion on June 30, 2008, returned 0.32% net, during the same time frame. The investment return calculations were prepared using a monthly time-weighted rate of return methodology based upon market values and are subject to independent audit.

The Pension and Insurance investment pools are pooled investment funds. The Pension pool was created in 1989 in an effort to realize cost savings through pooling of pension assets. The Insurance pool was created in 1993 for similar reasons. A list of the participants and their ownership in each pool is provided in this section of the report. The pooled funds' strategies are a proportional reflection of the investment objectives of each of the participating funds. The returns experienced by the individual funds were consistent with their respective investment policies and related asset allocations. Investment program details for the participating plans, including investment objectives and a listing of their 42 external investment managers are presented in the Investment Section.

Our investment program's cost effectiveness as measured by expense ratio is 66.4 basis points and includes investment office administrative expenses, consultant fees, money manager fees and master custodian fees. Allocation of monthly income and expenses to the participants in the pools is based on a time-weighted beginning balance. A "time factor" and "time-weighted amount" are calculated for each plan based on individual plan-related activities. The time-weighted amounts are added up for all plan-related activities to compose the time-weighted beginning balance used to allocate the activity of the pool. Five-year annualized risk for the period ended June 30, 2008, as measured by standard deviation has been 7.28% for the Pension Trust and 3.59% for the Insurance Trust. Risk exposure for each participating fund is also limited in accordance with the guidelines presented in the Investment Section.

Economic Overview

During the last fiscal year the Federal Reserve slashed interest rates from 5.25% to 2.0%, in an attempt to increase consumer spending and bolster the economy. Despite the effort of the Fed, the cost of funds to companies and to individuals has actually risen due to the risk aversion in the credit market. As a result, both home sales and home prices are down precipitously from the middle of 2007. The combination of such home price declines, a weakening job market and higher oil prices has resulted in an uneasy consumer. In fact, the University of Michigan's Index of Consumer Sentiment dropped to a 28-year low of 56.4 in June 2008. Inflation pressures continue to build, particularly in commodities and producer prices. The year-over-year Consumer Price Index (CPI) hit 5% in June, the highest level since 1991. Producer prices rose 9.2% over the same period marking the largest increase in 27 years. Real GDP was driven primarily by net exports buoyed by the weak dollar and economic growth abroad.

Domestic Equity Overview

The last fiscal year showed negative results across the broad equity market. The S&P 1500 Index, a broad market indicator, finished the fiscal year with a return of -12.72%, giving back much of the gains from the prior fiscal year return of 20.22%. Over the last fiscal year, the September quarter was the only quarter in which the index had a positive return (1.65%). Large cap stocks held up slightly better than small cap stocks over this time period. The S&P 500, a large cap index, outpaced the S&P 600, a small cap index, -13.12% to -14.67% respectively. Growth stocks held up much better than Value stocks in all capitalization ranges during fiscal year 2008. The difference was most pronounced in the large cap arena, where value lost 18.78% while growth stocks were down only 5.96%.

International Equity Overview

International equity, as represented by the MSCI EAFE Index, produced lackluster results in fiscal year 2008. The index lost 10.61%, a sharp turn around from the 27.00% gain from the year before. International Growth outperformed International Value in every quarter of fiscal year 2008. For the trailing twelve months ended June 30, 2008, MSCI EAFE Growth Index lost 4.44% while the MSCI EAFE Value Index was down 16.60%. Norway, rich with commodity and energy stocks, fared much better than the index returning 8.70% for the fiscal year. Despite a loss of 12.5% in January, the Emerging Markets Index gained 4.89% for the fiscal year. A gain much less than the 45.45% return in the year prior.

Domestic Fixed-Income Overview

The bond market, as measured by the Lehman Aggregate Bond Index, had a 7.12% return for the four quarters ended June 30, 2008. This return was 100 basis points above the 6.12% return of the prior fiscal year. The first half of the fiscal year was marked by a "flight to quality" where fixed income investors shifted to US Treasuries due to uncertainty within financial markets. Because of increased demand for Treasuries, yields were driven down, which ultimately widened spreads between Treasuries and spread sector products. This pattern continued until the final quarter of the fiscal year when investors started selling Treasuries to take on more risk.

The Lehman Government/Credit Intermediate index returned 7.37% over the fiscal year. This return was slightly higher than the 6.78% gain of the Lehman Government/Credit Long Index. Corporate bonds were up by a relatively modest amount as the Lehman Credit Index rose 3.81% over the same time period.

High yield investors showed negative returns as yield spreads continued to widen. The Lehman High Yield Index lost 2.26% over the trailing twelve months.

International Fixed-Income Overview

Due in large part to a declining US Dollar, the international bond market showed a large gain for fiscal year 2008. The Citi Non-US World Government Bond Index rose 18.72%, despite a decline of 4.72% in the June quarter. The Citi Euro Government Bond Index fared even better with a 19.94% gain for the fiscal year. Rising inflation and slower growth was more pronounced in the emerging market countries leading to underperformance relative to the developed world. The JP Morgan Emerging Markets Bond Plus Index gained 5.16% for the fiscal year.

Real Estate Overview

The NCREIF Total Index gained 9.20% over the past four quarters. The September and December quarters produced positive returns gaining 3.56% and 3.21% respectively. The second half of the fiscal year was not as favorable with a modest return of 1.60% in the March quarter and a .56% return in the June quarter. The NAREIT Total Index had a negative 13.64% return for the most recent fiscal year. The majority of this loss was due to a negative 12.06% loss that occurred in the December quarter.

Alternative Investments Overview

After a record breaking calendar year 2007 the first half of 2008 is only 3% behind 2007's record pace, which is unexpected given the current bear market environment. Much of the activity is occurring in the distressed debt arena with \$14 billion raised over nine funds in the most recent quarter alone. Another bright spot for private equity activity is taking place in Europe, with \$61 billion raised across 79 funds so far this year. Weakness continues in buyout commitments where activity thus far in calendar year 2008 is 20% (\$16 billion) behind last years pace. Due to the nature of private equity performance measurement, relative comparisons of fund performance with benchmarks are inherently ambiguous. Instead of recognizing any particular index as representative of the opportunity for the fiscal year ended June 30, 2008, it is worth noting that the Pension Trust's alternative investment allocation of Total Fund assets was 5.3%. The market value of the alternative investment allocation, including investment returns and net new investment, gained 4.56% over the prior fiscal year.

Summary

Fiscal year 2008 brought an atmosphere of change to the investments markets. As the woes of the sub-prime mortgage markets began to spill over into the broader credit markets, the stock market took note. This made for a challenging investment environment which no longer rewarded the controlled risks of value investing, credit exposure and quantitative modeling. Broad diversification was helpful in this fiscal year, but it was not enough to continue the levels of performance experienced during the several previous fiscal years. The State Investment Board will continue its mission to remain long-term oriented and seek investments which have proven successful over full market cycles.

Sincerely,



STEVE COCHRANE, CFA
Executive Director/CIO

INVESTMENT PERFORMANCE SUMMARY

JUNE 30, 2008

	Market Value	% Of Pool	Rates of Return (net of fees)						
			For Fiscal Year Ended 6/30					Annualized	
			2008	2007	2006	2005	2004	3 Years	5 Years
PENSION POOL PARTICIPANTS									
Teachers' Fund for Retirement	\$1,829,544,106	47.7%	-7.51%	20.04%	14.79%	13.36%	19.30%	8.42%	11.50%
Public Employees Retirement System	1,813,030,225	47.3%	-5.60%	18.96%	12.00%	14.07%	16.66%	7.94%	10.85%
Bismarck City Employee Pension Fund	49,720,564	1.3%	-3.82%	17.02%	9.13%	13.81%	14.85%	7.09%	9.93%
Bismarck City Police Pension Fund	23,017,396	0.6%	-4.69%	17.87%	10.18%	13.45%	15.99%	7.37%	10.25%
Job Service of North Dakota	90,008,699	2.3%	-1.64%	16.40%	7.09%	14.72%	12.57%	7.03%	9.63%
City of Fargo Pension Fund	29,657,560	0.8%	*	*	*	*	*	*	*
Subtotal Pension Pool Participants	3,834,978,550	100.0%							
INSURANCE POOL PARTICIPANTS									
Workforce Safety & Insurance Fund	1,259,151,999	82.2%	0.57%	10.33%	3.45%	7.29%	9.62%	4.70%	6.19%
State Fire and Tornado Fund	25,699,629	1.7%	-4.01%	12.43%	5.27%	6.66%	9.98%	4.34%	5.91%
State Bonding Fund	2,545,022	0.2%	-4.14%	12.41%	5.28%	6.62%	9.88%	4.29%	5.85%
Petroleum Tank Release Fund	8,553,433	0.6%	-4.07%	12.37%	5.58%	6.51%	10.41%	4.41%	6.00%
Insurance Regulatory Trust Fund	4,087,426	0.3%	-2.71%	11.10%	5.75%	5.41%	9.62%	4.56%	5.72%
Health Care Trust Fund	2,284,976	0.1%	3.43%	5.01%	5.11%	4.34%	2.91%	4.51%	4.16%
State Risk Management Fund	3,602,741	0.2%	-2.70%	11.20%	2.38%	5.98%	8.09%	3.47%	4.88%
State Risk Management Workers Comp	3,061,663	0.2%	-3.99%	12.17%	3.25%	5.88%	*	3.60%	*
Cultural Endowment Fund	269,193	0.0%	-7.59%	15.68%	6.32%	*	*	4.36%	*
Budget Stabilization Fund	198,872,522	13.0%	0.01%	5.12%	*	*	*	*	*
ND Assoc. of Counties (NDACo) Fund	1,124,748	0.1%	-7.79%	15.46%	6.38%	7.19%	12.43%	4.24%	6.42%
NDACo Program Savings Fund	803,676	0.1%	-5.77%	13.91%	6.25%	7.18%	12.42%	4.48%	6.56%
City of Bismarck Deferred Sick Leave	800,738	0.1%	-3.20%	11.81%	4.30%	6.75%	8.91%	4.12%	5.59%
PERS Group Insurance	4,391,120	0.3%	3.43%	5.38%	4.50%	2.46%	1.20%	4.43%	3.38%
City of Fargo FargoDome Permanent Fund	16,093,494	1.1%	-6.25%	14.00%	5.44%	7.21%	12.38%	4.06%	6.31%
Subtotal Insurance Pool Participants	1,531,342,380	100.0%							
INDIVIDUAL INVESTMENT ACCOUNT									
Retiree Health Insurance Credit Fund	40,006,696	100.0%	-14.19%	16.65%	8.47%	8.74%	15.24%	2.78%	6.35%
TOTAL	\$5,406,327,626								
<u>BENCHMARKS</u>									
S&P 500			-13.12%	20.59%	8.63%	6.32%	19.11%	4.41%	7.58%
Lehman Brothers Aggregate			7.12%	6.12%	-0.81%	6.80%	0.32%	4.08%	3.85%
90 Day T-Bills			3.63%	5.21%	4.00%	2.15%	0.98%	4.28%	3.18%
Callan Public Plan Sponsors Database (Median)			-4.84%	17.17%	10.42%	9.29%	15.10%	7.18%	9.14%

* These funds do not have the specified years of history under SIB management.

Note: Asset allocation largely drives investment performance. Each fund has a unique allocation that takes into consideration return objectives, risk tolerance, liquidity constraints, and unique circumstances. Such considerations must be taken into account when comparing investment results.

**SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
PENSION POOL PARTICIPANTS
FOR PERIODS ENDED JUNE 30, 2008**

		Date		Annualized Rates of Return		
	Style	Initiated	Market Value	1 Year	3 Years	5 Years
DOMESTIC LARGE CAP EQUITY:						
Epoch Investment Partners, Inc.	Absolute Return	07/2007	\$ 68,728,349	*	*	*
European Credit Management LTD	Portable Alpha	11/2007	63,840,646	*	*	*
Franklin Portfolio Associates	Market Neutral	09/2006	61,763,575	-12.58%	*	*
Los Angeles Capital Management	Structured Growth	08/2003	157,475,485	-6.74%	8.46%	*
Los Angeles Capital Management	Enhanced Russell 1000	08/2000	127,963,081	-10.50%	6.78%	9.25%
LSV Asset Management	Structured Value	06/1998	138,751,465	-21.93%	3.99%	11.63%
Northern Trust Global Investments	Enhanced S&P 500	08/2000	58,718,056	-15.84%	3.28%	6.90%
Prudential	Portable Alpha	03/2008	72,804,068	*	*	*
State Street Global Advisors	130/30 Long/Short	06/1987	73,497,803	-18.03%	3.34%	6.93%
Wells Capital Management Co.	Portable Alpha	04/2006	104,139,249	-30.50%	*	*
Westridge Capital Management, Inc.	Index Arbitrage	08/2000	131,472,530	-11.87%	5.29%	8.36%
TOTAL DOMESTIC LARGE CAP EQUITY			1,059,154,307	-15.66%	4.66%	8.54%
Standard & Poor's 500 Index				-13.12%	4.41%	7.58%
DOMESTIC SMALL CAP EQUITY:						
Callan Associates, Inc.	Mgr of Managers	05/2006	102,244,619	-15.34%	*	*
SEI Investments Management Co.	Mgr of Managers	06/2001	242,219,772	-21.52%	2.22%	9.56%
TOTAL DOMESTIC SMALL CAP EQUITY			344,464,391	-19.70%	3.05%	10.10%
Russell 2000 Index				-16.19%	3.79%	10.29%
INTERNATIONAL EQUITY:						
Capital Guardian Trust Company	Core	03/1992	163,642,761	-13.47%	12.06%	14.62%
Dimensional Fund Advisors	Small Cap Value	11/2007	51,865,582	*	*	*
LSV Asset Management	Core	11/2004	152,137,528	-23.48%	8.62%	*
State Street Global Advisors	Enhanced EAFE Index	03/1987	52,959,039	-12.42%	13.12%	14.81%
Wellington Trust Company, NA	Small Cap Growth	03/2002	53,439,072	-14.30%	10.81%	17.10%
TOTAL INTERNATIONAL EQUITY			474,043,982	-17.91%	10.12%	14.52%
MSCI EAFE 50% Hedged Index				-15.49%	10.78%	14.99%
EMERGING MARKETS EQUITY:						
Capital International	Private Equity	08/2007	10,739,302	*	*	*
Dimensional Fund Advisors	Small Cap	10/2005	30,223,626	-13.59%	*	*
J.P. Morgan Investment Management, Inc.	Core	11/2005	29,333,503	4.43%	*	*
PanAgora Asset Management, Inc.	Core	02/2006	30,178,552	7.93%	*	*
UBS Global Asset Management	Core	07/2005	46,122,039	6.73%	*	*
WestLB Asset Management, LLC	Core	03/2006	31,182,579	11.77%	*	*
TOTAL EMERGING MARKETS EQUITY			177,779,601	3.69%	27.95%	29.48%
MSCI Emerging Markets Index				4.89%	27.52%	30.15%
DOMESTIC FIXED INCOME:						
Bank of North Dakota	LB G/C Index	01/1988	100,292,630	7.77%	3.99%	3.63%
Calamos	Convertibles	10/2006	61,169,324	-2.16%	*	*
J.P. Morgan Investment Management, Inc.	Infrastructure	05/2007	113,875,561	15.05%	*	*
Prudential	Private Debt	06/2005	58,820,436	3.62%	3.66%	*
Timberland Investment Resources - Teredo	Timberland	06/2001	75,064,735	22.69%	15.91%	14.93%
Timberland Investment Resources - Springbank	Timberland	09/2004	166,576,942	17.23%	19.32%	*
Wells Capital Management, Inc.	Baa Average	11/1998	74,083,100	3.91%	3.09%	4.55%
Western Asset Management Co.	Core Bonds	02/1986	58,447,150	-0.10%	1.99%	3.11%
Westridge Capital Management, Inc.	Index Arbitrage	01/2008	53,381,321	*	*	*
TOTAL DOMESTIC FIXED INCOME			761,711,199	9.78%	8.80%	10.20%
Lehman Brothers Aggregate Index				7.12%	4.09%	3.85%

SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
PENSION POOL PARTICIPANTS (CONTINUED)
FOR PERIODS ENDED JUNE 30, 2008

		Date		Annualized Rates of Return		
	Style	Initiated	Market Value	1 Year	3 Years	5 Years
HIGH YIELD FIXED INCOME:						
Declaration Mgmt & Research	Distressed Mortgages	05/2008	3,660,134	*	*	*
Goldman Sachs	Mezzanine Debt-2006	04/2006	6,560,894	-3.89%	*	*
Goldman Sachs	Mezzanine Debt-Fund V	11/2007	7,354,991	*	*	*
Loomis Sayles	High Yield	04/2004	113,931,490	-0.92%	5.92%	*
PIMCO	Distressed Mortgages	10/2007	12,391,968	*	*	*
Wells Capital Management, Inc.	High Yield	04/2004	100,341,550	-5.08%	3.30%	*
Trust Company of the West	Mezz Debt - Energy	07/2007	9,658,590	*	*	*
TOTAL HIGH YIELD FIXED INCOME			253,899,617	-3.62%	4.39%	6.83%
Lehman Brothers High Yield Corp 2% Issuer Cap				-1.74%	4.48%	6.84%
INTERNATIONAL FIXED INCOME:						
UBS Global Asset Management	Core Non-U.S.	03/1989	94,879,700	17.52%	5.87%	6.84%
Brandywine Asset Management	Core Non-U.S.	05/2003	100,237,040	11.17%	7.49%	8.94%
TOTAL INTERNATIONAL FIXED INCOME			195,116,740	14.24%	6.67%	7.89%
Citigroup Non-US Gov't Bond Index				18.72%	6.65%	7.06%
ALTERNATIVE INVESTMENTS						
Adams Street Partners (I.V.C.F. II)	Diversified Private Equity	03/1989	5,751	19.90%	24.67%	16.18%
Adams Street Partners (I.V.C.F. III)	Diversified Private Equity	01/1993	250,829	43.93%	72.98%	50.49%
Adams Street Partners (1998 Fund)	Diversified Private Equity	01/1998	1,016,350	6.91%	16.93%	15.91%
Adams Street Partners (1999 Fund)	Diversified Private Equity	01/1999	3,068,742	13.31%	16.14%	14.44%
Adams Street Partners (2000 Fund)	Diversified Private Equity	10/1999	10,296,421	21.82%	21.03%	17.78%
Adams Street Partners (2001 Fund)	Diversified Private Equity	12/2000	8,663,455	2.22%	12.37%	9.51%
Adams Street Partners (2002 Fund)	Diversified Private Equity	03/2002	4,711,241	3.20%	14.93%	10.72%
Adams Street Partners (2003 Fund)	Diversified Private Equity	04/2003	1,613,644	-6.41%	16.61%	9.01%
Adams Street Partners (1999 Non-U.S. Fund)	Diversified Private Equity	01/1999	1,456,453	-9.78%	40.17%	35.08%
Adams Street Partners (2000 Non-U.S. Fund)	Diversified Private Equity	01/2000	3,531,406	27.03%	38.56%	28.82%
Adams Street Partners (2001 Non-U.S. Fund)	Diversified Private Equity	02/2001	2,386,052	13.44%	14.61%	13.91%
Adams Street Partners (2002 Non-U.S. Fund)	Diversified Private Equity	05/2002	6,375,059	14.08%	44.34%	32.08%
Adams Street Partners (2003 Non-U.S. Fund)	Diversified Private Equity	04/2003	5,177,336	24.94%	42.47%	23.29%
Adams Street Partners (2004 Non-U.S. Fund)	Diversified Private Equity	04/2004	2,485,864	29.17%	25.88%	*
Adams Street Partners (2008 Non-U.S. Fund)	Diversified Private Equity	01/2008	334,476	*	*	*
Adams Street Partners (B.V.C.F. IV)	Diversified Private Equity	05/1999	15,293,391	-1.94%	6.30%	9.07%
Adams Street Partners (Direct Co-Investment)	Direct Private Equity	09/2006	15,833,271	4.06%	*	*
Coral Partners, Inc. (V.P. II)	Direct Venture Capital	06/1990	13,582	-58.58%	-24.60%	-13.13%
Coral Partners, Inc. (Fund V)	Direct Venture Capital	03/1998	8,563,981	9.09%	5.22%	-8.24%
Coral Partners, Inc. (Supplemental Fund V)	Direct Venture Capital	08/2001	905,046	-6.34%	3.94%	6.41%
Coral Partners, Inc. (Momentum Fund)	Direct Venture Capital	07/2002	15,102,998	13.96%	-3.64%	-7.09%
Corsair Capital (Fund III)	Pvt Eq - Financial Svcs	02/2006	13,972,418	64.06%	*	*
Corsair Capital (ND Investors)	Pvt Eq - Financial Svcs	03/2008	10,000,000	*	*	*
Hearthstone Homebuilding Investors (MSII)	Residential Financing	10/1999	85,347	-62.01%	-99.97%	-98.61%
Hearthstone Homebuilding Investors (MSIII)	Residential Financing	09/2003	1,485,284	-10.75%	63.83%	*
Invest America (Lewis and Clark)	Direct Venture Capital	02/2002	7,899,668	27.35%	13.22%	1.67%
Matlin Patterson Global Opportunities Fund I	Distressed Debt	07/2002	7,835,368	-29.56%	-11.62%	10.19%
Matlin Patterson Global Opportunities Fund II	Distressed Debt	10/2004	33,251,945	-5.54%	8.03%	*
Matlin Patterson Global Opportunities Fund III	Distressed Debt	06/2007	16,467,493	-20.03%	*	*
Quantum Energy Partners	Pvt Equity - Energy	01/2007	2,513,240	-3.17%	*	*
Quantum Resources	Pvt Equity - Energy	10/2006	2,678,462	-52.43%	*	*
TOTAL ALTERNATIVE INVESTMENTS			203,274,573	4.56%	11.94%	11.12%

**SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
PENSION POOL PARTICIPANTS (CONTINUED)
FOR PERIODS ENDED JUNE 30, 2008**

	Style	Initiated	Market Value	1 Year	3 Years	5 Years
REAL ESTATE:						
INVESCO Realty Advisors	Core Commingled	08/1997	149,464,922	8.71%	16.82%	15.77%
INVESCO Realty Advisors	Core Plus LP	11/2007	3,306,374	*	*	*
J. P. Morgan Investment Mgmt. Inc.	Core Commingled	10/1987	156,709,973	6.80%	15.67%	15.50%
J. P. Morgan Investment Mgmt. Inc.	Alternative Commingled	01/2006	37,696,083	7.13%	*	*
J. P. Morgan Investment Mgmt. Inc.	Asian LP	01/2008	3,606,696	*	*	*
TOTAL REAL ESTATE			350,784,048	7.27%	15.15%	14.95%
NCREIF Total Index				9.20%	14.97%	14.73%
CASH EQUIVALENTS:						
The Northern Trust Company	STIF/STEP	07/1994	14,750,092	0.71%	3.44%	2.80%
90 Day T-Bills				3.63%	4.27%	3.18%
TOTAL PENSION POOL			<u>\$ 3,834,978,550</u>	-5.82%	8.70%	11.60%
Policy Target				-4.21%	7.91%	10.22%

INSURANCE POOL PARTICIPANTS

	Style	Date Initiated	Market Value	Annualized Rates of Return		
				1 Year	3 Years	5 Years
DOMESTIC LARGE CAP EQUITY:						
Los Angeles Capital Management	Structured Growth	08/2003	\$ 21,124,257	-7.57%	7.91%	*
Los Angeles Capital Management	Enhanced Russell 1000	04/2004	41,098,028	-9.35%	7.20%	*
LSV Asset Management	Structured Value	06/1998	18,622,090	-21.07%	4.23%	12.00%
State Street Global Advisors	S&P 500 Index	10/1996	13,596,195	-18.05%	3.31%	6.90%
Westridge Capital Management, Inc.	Enhanced S&P 500	04/2004	41,661,962	-11.80%	5.33%	*
TOTAL DOMESTIC LARGE CAP EQUITY			136,102,532	-12.42%	5.99%	9.59%
Standard & Poor's 500 Index				-13.12%	4.41%	7.58%
DOMESTIC SMALL CAP EQUITY:						
Research Affiliates		07/2007	22,342,404	*	*	*
SEI Investments Management Co.	Mgr of Managers	06/2001	22,872,927	-20.06%	2.95%	9.98%
TOTAL DOMESTIC SMALL CAP EQUITY			45,215,331	-20.25%	2.87%	9.92%
Russell 2000 Index				-16.19%	3.79%	10.29%
INTERNATIONAL EQUITY:						
Capital Guardian Trust Company	Core	04/1997	39,329,278	-11.79%	12.88%	15.03%
Dimensional Fund Advisors	Small Cap Value	11/2007	9,176,757	*	*	*
LSV Asset Management	Core	11/2004	37,910,170	-25.29%	7.92%	*
The Vanguard Group	Small Cap Growth	06/2003	9,057,906	-17.05%	12.35%	20.89%
TOTAL INTERNATIONAL EQUITY			95,474,111	-18.30%	10.39%	15.17%
MSCI EAFE 50% Hedged Index				-15.49%	10.78%	14.99%

**SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
INSURANCE POOL PARTICIPANTS (CONTINUED)
FOR PERIODS ENDED JUNE 30, 2008**

		Date		Annualized Rates of Return		
	Style	Initiated	Market Value	1 Year	3 Years	5 Years
DOMESTIC FIXED INCOME:						
Bank of North Dakota (BND)	LB G/C Index	07/1989	94,996,481	7.76%	3.99%	3.34%
Clifton Group	Enhanced Fixed Income	07/2006	54,941,192	11.67%	*	*
Hyperion Brookfield	Mortgage Backed	01/2007	43,609,101	-19.73%	*	*
Prudential	Core-Plus	08/2006	55,562,170	5.20%	*	*
Wells Capital	Baa Average Quality	04/2002	190,488,110	3.77%	3.17%	4.01%
Western Asset Management Co.	Core Bond	07/1990	188,494,019	2.27%	2.97%	3.76%
TOTAL DOMESTIC FIXED INCOME			628,091,073	2.65%	2.82%	3.30%
Lehman Brothers Aggregate Index				7.12%	4.09%	3.85%
INFLATION PROTECTED ASSETS:						
Northern Trust Global Investments	Index	05/2004	144,904,184	15.67%	5.81%	*
Western Asset Management Co.	Core	05/2004	141,247,512	12.38%	4.47%	*
TOTAL INFLATION PROTECTED ASSETS			286,151,696	14.02%	5.14%	*
Lehman Brothers US TIPS Index				15.09%	5.59%	*
REAL ESTATE:						
J. P. Morgan Investment Mgmt. Inc.	Core Commingled	11/2005	84,217,744	0.61%	*	*
TOTAL REAL ESTATE			84,217,744	0.61%	*	*
NCREIF Total Index				9.20%	14.97%	*
CASH EQUIVALENTS:						
Bank of North Dakota	Enhanced MMDA	07/1989	67,420,615	3.44%	4.44%	3.38%
90 Day T-Bills				3.63%	4.27%	3.18%
TOTAL INSURANCE POOL			\$ 1,342,673,102	0.68%	4.89%	6.30%
Policy Target				3.94%	5.71%	6.48%
NON-POOLED INVESTMENTS						
Bank of North Dakota Match Loan CD's						
Held by Workforce Safety & Insurance	Certificates of Deposit	various	35,782,795	4.63%	*	*
Held by Budget Stabilization Fund	Certificates of Deposit	various	57,359,432	5.24%	*	*
Prudential (Budget Stabilization Fund)	Enhanced Cash Fund	07/2007	95,527,051	-4.19%	*	*

* This manager/category has less than the indicated years under management due to addition of asset class or replacement of investment managers during this time period.

The investment return calculations were prepared using a monthly time-weighted rate of return methodology based upon market values and are subject to independent audit. Returns are shown before the effect of investment management fees, except for alternative investments, which are shown net of fees.

LARGEST HOLDINGS (By Market Value) AT JUNE 30, 2008

PENSION POOL PARTICIPANTS

Shares	Stocks	Market Value
230,958	Exxon Mobile Corporation	\$ 20,354,329
100,198	International Business Machines Corporation	11,876,469
113,138	Chevron Corporation	11,215,370
613,401	Pfizer Incorporated	10,716,115
98,191	National Oilwell Varco	8,711,506
305,721	Microsoft Corporation	8,410,385
34,000	Potash Corporation	7,928,027
117,900	Johnson & Johnson	7,585,686
140,595	Philip Morris International Inc.	6,943,987
71,577	ConocoPhillips	6,756,153
Par	Bonds	Market Value
25,000,000	Tiers Credit Backed TR 2006-14 Due 01-25-2019	\$ 20,968,750
25,000,000	Tiers Credit Backed TR 2006-5 Due 07-25-2018	20,937,500
10,000,000	US Treasury Bonds 4.125% Due 08-15-2010	10,303,120
6,500,000	FNMA Single Family Mortgage 5% 30 Years (August)	6,215,625
5,500,000	US Treasury Notes 6.5% Due 2-15-2010	5,852,341
6,205,000	New South Wales Treasury 5.5% SR MTN 01-03-2017	5,373,546
5,400,000	FNMA 30 Year Pass-Throughs 5.5% (August)	5,308,875
12,351,000	Republic of Poland Bonds 5.25% 10/17/2025	5,268,730
4,350,000	US Treasury Notes 3.5% Due 11-15-2009	4,417,969
13,825,000	Malaysia Bonds 3.756% 04-11-2028	4,183,253

INSURANCE POOL PARTICIPANTS

Shares	Stocks	Market Value
40,163	Exxon Mobile Corporation	\$ 3,539,565
17,824	International Business Machines Corporation	2,112,679
18,792	Chevron Corporation	1,862,851
103,761	Pfizer Incorporated	1,812,705
6,100	Potash Corporation	1,422,381
119,200	BP Amoco Ord USD0.25	1,383,620
14,680	BNP Paribas	1,330,847
19,600	CSX Corporation	1,231,076
18,935	Johnson & Johnson	1,218,278
11,353	Burlington Northern Santa Fe Corporation	1,134,051
Par	Bonds	Market Value
11,635,000	US Treasury Notes Inflation Linked 1.625% 01-15-2015	\$ 13,521,818
7,070,000	US Treasury Bonds Inflation Index Linked 3.875% 04-15-2029	11,982,788
6,940,000	US Treasury Bonds Inflation Index Linked 3.625% Due 4-15-2028	11,482,358
9,800,000	US Treasury Bonds Inflation Index Linked 2% Due 1-15-2026	10,503,069
7,335,000	US Treasury Notes Inflation Indexed 0.875% 04-15-2010	8,461,438
6,720,000	US Treasury Notes Inflation Indexed 1.875% Due 07-15-2015	7,773,334
7,120,000	US Treasury Notes Inflation Indexed 1.625% Due 01-15-2018	7,420,462
5,335,000	US Treasury Notes Inflation Indexed 3.5% 01-15-2011	7,168,470
6,190,000	US Treasury Notes Inflation Indexed 2% 01-15-2016	7,058,488
7,030,000	Comcast Corporation Note 5.875% Due 02-15-2018	6,763,486

The individual investment account, PERS Retiree Health Credit Fund, is invested in various commingled funds, and so has no individual stock or bond holdings. A complete list of all holdings is available upon request.

SCHEDULE OF INVESTMENT FEES & COMMISSIONS FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Assets under management	Fees	Basis points
Investment managers' fees:			
Domestic large cap equity managers	\$ 1,195,256,839	\$ 5,728,599	46
Domestic small cap equity managers	389,679,722	2,641,084	65
International equity managers	569,518,093	3,536,343	57
Emerging markets equity managers	177,779,601	2,275,173	106
Domestic fixed income managers	1,578,471,550	8,666,661	54
Inflation protected assets managers	286,151,696	59,045	2
High yield fixed income managers	253,899,617	2,387,315	90
International fixed income managers	195,116,740	706,041	35
Real estate managers	435,001,792	4,338,086	100
Alternative investment managers	203,274,573	3,924,667	206
Cash & equivalents managers	82,170,707	57,539	6
Balanced account managers	40,006,696	141,727	34
Total investment managers' fees	<u>\$ 5,406,327,626</u>	34,462,280	61
Custodian fees		1,042,896	2
Investment consultant fees		290,366	1
SIB Service Fees		24,952	0
Total investment expenses		<u>\$ 35,820,494</u>	64
Securities lending fees		<u>\$ 13,375,736</u>	24

Reconciliation of Investment Expenses to Financial Statements

Investment expenses as reflected in the financial statements \$ 28,747,505

Plus investment management fees included in investment income

Domestic large cap equity	483,018
Domestic small cap equity	803,236
International equity	318,048
Emerging markets equity	908,228
Domestic fixed income	174,842
High Yield	776,814
Real estate	85,880
Private equity	3,430,367
Cash equivalents	57,539
Balanced fund	35,018
Investment expenses per schedule	<u>\$ 35,820,494</u>

Brokers	Number of shares traded	Total commissions	Commissions per share
Investment Technology Group Inc.	6,147,482	\$ 77,535	\$0.013
J.P. Morgan Securities Inc.	3,804,532	62,676	0.016
Heflin & Co, LLC	3,452,339	69,047	0.020
CSFB New York	3,194,283	19,125	0.006
Goldman Sachs & Co New York	2,965,098	31,510	0.011
Citigroup Global Markets Ind/Smith Barney	2,906,086	53,236	0.018
Bear Stearns	2,806,826	26,524	0.009
Merrill Lynch Intl LTD Equities	2,071,251	30,320	0.015
Fidelity Capital Markets	1,955,920	39,118	0.020
Guzman & Company	1,791,035	35,821	0.020
Other 185 Brokers *	47,282,247	688,231	0.015
Gross commissions	<u>78,377,099</u>	\$ 1,133,144	\$0.014
Less commissions recaptured		(2,646)	
Net commissions paid		<u>\$ 1,130,498</u>	\$0.014

* A complete listing of investment brokers utilized is available upon request.

Note: This schedule includes only brokerage costs for agency trades of common stock.

TEACHERS' FUND FOR RETIREMENT

■ Teachers' Fund for Retirement Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The North Dakota Teachers' Fund for Retirement (TFFR) is a pension benefit plan that was established in 1913 to provide retirement income to all public school and certain state teachers and administrators in the state of North Dakota. The plan is administered by a seven member Board of Trustees comprised of five members appointed by the Governor of North Dakota and two elected officials, the State Treasurer and the State Superintendent of Public Instruction.

The plan is a multi-employer defined benefit pension plan that provides retirement benefits, disability retirement benefits, and survivor benefits, as the case may be, in accordance with Chapter 15-39.1 of the North Dakota Century Code (NDCC). Monthly retirement benefits are based on the formula: Number of Years of Service X 2.0% X Final Average Annual Salaries. Adjustments to the basic formula are made depending on the retirement option selected.

Funding is provided by monthly employee and employer contributions. Member contributions are 7.75% of payroll. Employer contributions are 7.75% of payroll until July 1, 2008, when employer contributions increase to 8.25% of payroll. Employer contributions will return to 7.75% when TFFR reaches 90% funded level. On an annual basis, benefit payouts exceed contributions. The asset/liability study completed in June 2005 indicates that a 1% cash equivalents allocation is expected to provide sufficient liquidity for the next ten years.

The TFFR Board has an actuarial valuation performed annually. The current actuarial assumed rate of return on assets is 8.0%. Key plan and financial statistics as of the most recent valuation are recorded in the Asset/Liability Model presented in June 2005 by Gabriel, Roeder, Smith and Company (GRS) and on file at the North Dakota Retirement and Investment Office.

Responsibilities and Discretion of the State Investment Board (SIB)

The TFFR Board is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent institutional investor rule. The fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an

institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives of the plan have been established by the TFFR board upon consideration of the board's strategic objectives and a comprehensive review of current and projected financial requirements.

Objective #1: Prudently invest assets in a well diversified portfolio to optimize long term returns while controlling risk to the fund.

Objective #2: Accumulate sufficient funds to pay all current and future benefit and expense obligations when due.

Objective #3: Improve and maintain adequate funding of all promised benefits to ensure the financial integrity of the system.

Objective #4: Build a funding cushion to provide for future benefit improvements.

Standards of Investment Performance

The plan's investment objectives and characteristics give rise to an asset allocation that is considered to have greater than a 50% probability of achieving the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that at least matches that of the policy portfolio.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
- c. Over 10 year and longer time periods the Fund should match or exceed the expected 8.93% rate of return assumed in the asset/liability study. Expected risk for the period, measured by standard deviation, is 13.52%.

Policy and Guidelines

The asset allocation of the TFFR fund is established by the TFFR Board, with input from consultants and RIO staff. Asset allocation is based upon the asset/liability study completed by Gabriel, Roeder, Smith and Company in June 2005. That study provided an appraisal of current cash flow projections and estimates of the investment returns likely to be achieved by the various asset classes over the next 20 years.

In recognition of the plan's objectives, projected financial status, and capital market expectations, the following asset allocation options were deemed appropriate for the Fund:

Domestic Equities – Large Cap	28%
Domestic Equities – Small Cap	10%
International Equities	18%
Emerging Markets Equities	5%
Venture Capital/Alt. Invsts.	5%
Domestic Fixed Income	12%
High Yield Bonds	7%
International Fixed Income	5%
Cash Equivalents	1%
Real Estate	9%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
- c. No transaction shall be made which threatens the tax exempt status of the Fund.
- d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as "The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

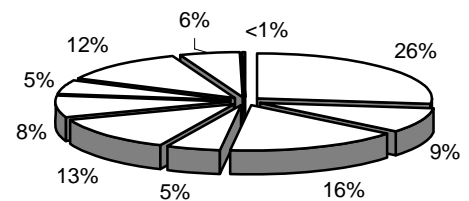
Internal Controls

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment

purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

■ Teachers' Fund for Retirement Actual Asset Allocation – June 30, 2008

<u>Asset Allocation</u>	<u>Market Value</u>	<u>Percent of Total</u>	<u>One Year Return</u>
Domestic Large Cap Equity	\$ 492,563,517	26%	
Domestic Small Cap Equity	164,717,985	9%	
International Equity	294,478,822	16%	
Emerging Markets Equity	87,883,870	5%	
Domestic Fixed Income	229,787,473	13%	
High Yield Fixed Income	143,723,091	8%	
International Fixed Income	91,389,349	5%	
Real Estate	219,255,494	12%	
Private Equity	101,316,752	6%	
Cash Equivalents	4,427,753	<1%	
TOTAL FUND	\$ 1,829,544,106	100%	-7.51%



PUBLIC EMPLOYEES RETIREMENT SYSTEM

■ Public Employees Retirement System (PERS) Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The North Dakota Public Employees Retirement System (NDPERS) and the Highway Patrol Retirement System (HPRS) are pension benefit plans established to provide retirement income to state employees and employees of participating political subdivisions. The plans are administered by a seven member Board of Trustees (the Board). The Chair is appointed by the governor, three members are elected by the active members of the plans, one member is elected by the retired members, one is appointed by the Attorney General and the seventh member is the State Health Officer or their designee.

The NDPERS plan is a multi-employer hybrid benefit public pension plan that provides retirement benefits, disability retirement benefits, and survivor benefits, in accordance with Chapter 54-52 of the North Dakota Century Code (NDCC). Monthly retirement benefits for the Main, National Guard and Law Enforcement Plans are based on the formula: number of Years of Service times 2.0% times the final average salary. For the NDPERS Judges Plan the retirement formula is: for the first ten years of service the formula is final average salary times 3.5%, for the second ten years of service the formula is final average salary times 2.80% and for all remaining years of service the formula is final average salary times 1.25%.

The Highway Patrol plan is a single employer plan that provides retirement benefits, disability benefits, and survivor benefits in accordance with Chapter 39-03.1 of the North Dakota Century Code. Monthly retirement benefits are based upon the formula: first 25 years of credit service times 3.25% and all remaining years of service times 1.75%.

Funding for the NDPERS plan is provided by monthly employee contributions and employer contributions with the amount varying based upon which NDPERS plan the member participates in. For the Main NDPERS plan the employee contribution is 4% and the employer contribution is 4.12%, for the Judges Plan the employee contribution is 5% and employer contribution is 14.52%, for the National Guard Plan the employee contribution is 4% and employer contribution is 6.5%, for the Law Enforcement Plan with prior service the employee contribution is 4% and the employer contribution is 8.31% and for the Law Enforcement Plan without prior service the employee contribution rate is 4% and the employer rate is 6.43%.

Funding for the Highway Patrol plan is provided by a monthly employee contribution of 10.3% and an employer contribution of 16.7%

Each year the Board has an actuarial valuation performed. The current actuarial assumed rate of return on assets for all plans is 8%.

Responsibilities and Discretion of the State Investment Board (SIB)

Aggregate plan contributions plus earnings, minus allowable expenses constitute the Fund. The Board is charged by NDCC chapters 54-52, 21-10-01, and 39-03.1 to establish policies for the investment goals and asset allocation of the Fund. The State Investment Board (SIB) is charged with implementing the asset allocation as promptly and prudently as possible in accordance with the Board's policies by investing the assets of the Fund in the manner provided in the prudent investor rule, which provides:

Fund fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives. (NDCC 21-10-07)

The SIB may delegate investment responsibility of the Fund or any portion of the Fund to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy is supervisory not advisory.

The SIB may, at its discretion, pool the assets of the Fund with another fund or funds having similar investment objectives and time horizons in order to maximize returns and minimize costs. In pooling fund assets the SIB will establish asset class pools it deems necessary to achieve the specific quality, diversification, restrictions, and performance objectives subject to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing the selection criteria, determining the performance measures, and retaining all fund money managers. SIB is also responsible for the selection and retention of any investment consultants that may be employed in the investment of the Fund assets.

Delegation of Authority

Management responsibility for the investment program not assigned to the North Dakota State Investment Board (SIB) in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to

the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

Such procedures must provide for:

1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1)(a).
2. Investment diversification, investment quality, qualification of advisory services, and amounts to be invested by advisory services pursuant to NDCC 21-10-02.1(1)(e). In developing these policies it is understood:
 - a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
 - b. The use of derivatives will be monitored to ensure that risks are not taken by the money managers.
 - c. All assets must be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
3. Guidelines for the selection and redemption of investments pursuant to NDCC 21-10-02.1(1)(d).
4. The criteria for making decisions with respect to hiring, retention, and termination of money managers will be clearly defined. This also includes selecting performance measurements, consultants, report formats, and frequency of meetings with money managers.

All participants in the investment process must seek to act responsibly as custodians of the public trust.

Investment Goals

The investment goals of the Fund have been established by the North Dakota Public Employees Retirement Board based upon consideration of the Board's strategic objectives and a comprehensive review of the current and projected financial requirements. These goals are to be viewed over the long term and have been established after full consideration of all factors set out in the Statement of Investment Goals, Objectives and Policies.

Goal #1: Accumulate sufficient wealth through a diversified portfolio of investments which must enable the State of North Dakota to pay all current and future retirement benefits and expense obligations of the Fund.

Goal #2: To obtain investment returns in excess of that needed to allow for increases in a retiree's annuity to maintain the purchasing power of their retirement benefit.

Investment Performance Objective

The NDPERS Board will seek to make investments that generate sufficient return to meet the goals

outlined in this policy. The objectives established in this section are in accordance with the fiduciary requirement as set forth in federal and state law.

It is in the best interest of NDPERS and its beneficiaries that performance objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Statement of Investment Goals, Objectives and Policies.

- a. The funds rate of return, over the long term should equal, that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
- c. Over 10-year and longer periods the fund should match or exceed the expected rate of return projected in the asset/liability study without exceeding the expected risk for the period.

Asset Allocation

In recognition of the plan's performance objectives, benefit projections, and capital market expectations, the NDPERS Board has established the following asset allocation:

Date of last asset allocation study: NDPERS Board Approved December 2005 – SEI Corporation

Domestic Equities-Large Cap	30%
Domestic Equities-Small Cap	10%
International Equities	10%
Emerging Markets Equities	5%
Domestic Fixed Income	24%
High Yield Fixed Income	5%
International Fixed Income	5%
Real Estate	5%
Private Equity	5%
Cash	1%
Expected Return	9.3%
Standard Deviation of Returns	10.5%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

Restrictions

- A. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- B. Use of derivatives will be monitored to ensure that undue risks are not taken by the money managers.

- C. No transaction may be made which threatens the tax exempt status of the Fund.
- D. No unhedged short sales or speculative margin purchases may be made.
- E. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- F. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

Economically targeted investing is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

The Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.

■ Public Employees Retirement Fund Actual Asset Allocation – June 30, 2008

<u>Asset Allocation</u>	<u>Market Value</u>	<u>Percent of Total</u>	<u>One Year Return</u>
Domestic Large Cap Equity	\$ 518,333,014	28%	
Domestic Small Cap Equity	164,274,258	9%	
International Equity	165,672,936	9%	
Emerging Markets Equity	86,873,169	5%	
Domestic Fixed Income	451,683,184	25%	
High Yield Fixed Income	103,975,210	6%	
International Fixed Income	90,864,713	5%	
Real Estate	122,304,874	7%	
Private Equity	99,234,758	5%	
Cash Equivalents	9,814,109	1%	
TOTAL FUND	\$ 1,813,030,225	100%	-5.60%

- (4) The safeguards and diversity that a prudent investor would adhere to are present.

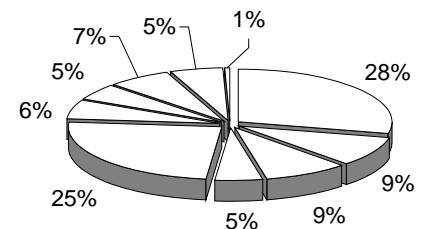
- G. Publicly Traded REITs may not be used in the Real Estate asset allocation.

- H. Where timberland is used as part of the domestic fixed income portfolio, it may not make up more than 30% of the total asset class at the time of initial purchase. If timberland becomes 50% or more of the domestic fixed income portfolio through market appreciation, the SIB must review the situation with the goal of bringing the timberland portion of the domestic fixed income portfolio into line with this restriction and, considering market conditions at the time, take any action deemed prudent.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

The SIB must have a system of internal controls to prevent losses of public funds arising from fraud or employee error. The controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.



BISMARCK CITY EMPLOYEE PENSION PLAN

■ Bismarck City Employee Pension Plan Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The Bismarck, North Dakota City Employee Pension Plan (BCEPP) is the pension benefit plan (Fund) established for the city of Bismarck public employees. The Fund is administered by the Bismarck City Employee Pension Plan Board of Trustees. The Fund is a defined benefit pension plan maintained to provide retirement benefits, and/or death benefits as may be the case, to the participants in accordance with Chapter 9-07 of the city of Bismarck Code of Ordinance (1986 revised). The Fund is administered in accordance with IRS and Treasury Regulations.

The Fund and benefits provided are funded by contributions from the members and members' employer. The Fund was established to provide benefits to members eligible to receive them in accordance with the provisions of the Fund.

Responsibilities and Discretion of the State Investment Board (SIB)

The BCEPP Board has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. The BCEPP Board is responsible for establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent institutional investor rule. The fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory not advisory.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Standards of Investment Performance

Investments of the Fund must seek to generate sufficient return to meet the goals outlined in this policy. The objectives established in this section are in accordance with the fiduciary requirement as set forth in federal and state law.

It is in the best interest of the Fund and its beneficiaries that objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this statement.

- a. The Fund should produce a rate of return, over any given time period, that matches or exceeds that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB and reflected in the monthly investment performance reports.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
- c. Over 10 year and longer time periods the Fund should match or exceed the expected 8.6% rate of return assumed in the asset/liability study. Expected risk for the period, measured by standard deviation, is 9.7%.

Policy and Guidelines

The asset allocation of the Fund is established by the BCEPP Board, with input from consultants and RIO staff. Asset allocation is based upon the asset/liability study completed by SEI in March 2006. That study provided an appraisal of current cash flow projections and estimates of the investment returns likely to be achieved by the various asset classes over the next 20 years.

In recognition of the Fund's objectives, benefit projections, and capital market expectations, the following is the asset allocation for the Fund:

Domestic Large Cap Equity	20.0%
Domestic Small Cap Equity	12.0%
International Equity	11.0%
Emerging Markets Equity	2.0%
Domestic Fixed Income	29.0%
High Yield Fixed Income	6.0%
International Fixed Income	9.5%
Real Estate	9.5%
Alternative Investments	1.0%

Rebalancing of the Fund's investment portfolio to this target must be done as soon as feasible while ensuring the process is effectively coordinated and accomplished in a cost effective manner. Maintenance of allocations to this target must be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
- c. No transaction shall be made which threatens the tax exempt status of the Fund.
- d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

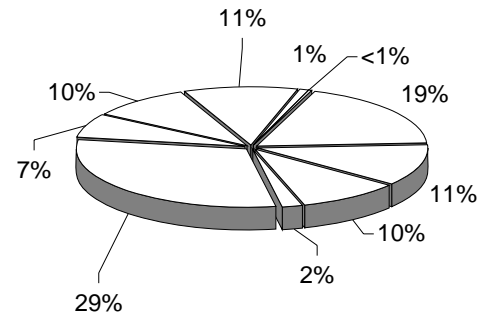
Where investment characteristics, including yield, risk, and liquidity are equivalent, the BCEPP Board's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

■ **Bismarck City Employee Pension Plan**
Actual Asset Allocation – June 30, 2008

<u>Asset Allocation</u>	<u>Market Value</u>	<u>Percent of Total</u>	<u>One Year Return</u>
Domestic Large Cap Equity	\$ 9,283,523	19%	
Domestic Small Cap Equity	5,652,276	11%	
International Equity	4,795,640	10%	
Emerging Markets Equity	956,754	2%	
Domestic Fixed Income	15,096,857	29%	
High Yield Fixed Income	3,327,211	7%	
International Fixed Income	4,734,312	10%	
Real Estate	5,390,196	11%	
Private Equity	303,845	1%	
Cash Equivalents	179,950	<1%	
TOTAL FUND	\$ 49,720,564	100%	-3.82%



BISMARCK CITY POLICE PENSION PLAN

■ Bismarck City Police Pension Plan Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The Bismarck, North Dakota City Police Pension Plan (BCPPP) is the pension benefit plan (Fund) established for the city of Bismarck police. The Fund is administered by the Bismarck City Police Pension Plan Board of Trustees. The Fund is a defined benefit pension plan maintained to provide retirement benefits, and/or death benefits as may be the case, to the participants in accordance with Chapter 9-08 of the city of Bismarck Code of Ordinance (1986 revised). The Fund is administered in accordance with IRS and Treasury Regulations.

The Fund and benefits provided are funded by contributions from the members and members' employer. The Fund was established to provide benefits to members eligible to receive them in accordance with the provisions of the Fund.

Responsibilities and Discretion of the State Investment Board (SIB)

The BCPBP Board has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. The BCPBP Board is responsible for establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent institutional investor rule. The fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory not advisory.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Standards of Investment Performance

Investments of the Fund must seek to generate sufficient return to meet the goals outlined in this policy. The objectives established in this section are in accordance with the fiduciary requirement as set forth in federal and state law.

It is in the best interest of the Fund and its beneficiaries that objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this statement.

- a. The Fund should produce a rate of return, over any given time period, that matches or exceeds that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB and reflected in the monthly investment performance reports.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
- c. Over 10 year and longer time periods the Fund should match or exceed the expected 8.9% rate of return assumed in the asset/liability study. Expected risk for the period, measured by standard deviation, is 10.6%.

Policy and Guidelines

The asset allocation of the Fund is established by the BCPBP Board, with input from consultants and RIO staff. Asset allocation is based upon the asset/liability study completed by SEI in March 2006. That study provided an appraisal of current cash flow projections and estimates of the investment returns likely to be achieved by the various asset classes over the next 20 years.

In recognition of the Fund's objectives, benefit projections, and capital market expectations, the following is the asset allocation for the Fund:

Domestic Large Cap Equity	24.0%
Domestic Small Cap Equity	12.0%
International Equity	11.0%
Emerging Markets Equity	3.0%
Domestic Fixed Income	24.5%
High Yield Fixed Income	5.0%
International Fixed Income	9.0%
Real Estate	8.5%
Venture Capital	3.0%

Rebalancing of the Fund's investment portfolio to this target must be done as soon as feasible while ensuring the process is effectively coordinated and accomplished in a cost effective manner. Maintenance of allocations to this target must be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
- c. No transaction shall be made which threatens the tax exempt status of the Fund.
- d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

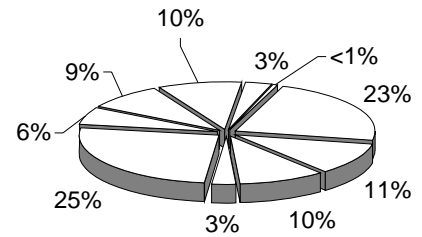
Where investment characteristics, including yield, risk, and liquidity are equivalent, the BCPBP Board's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

■ **Bismarck City Police Pension Plan**
Actual Asset Allocation – June 30, 2008

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	\$ 5,194,855	23%	
Domestic Small Cap Equity	2,496,078	11%	
International Equity	2,274,595	10%	
Emerging Markets Equity	669,897	3%	
Domestic Fixed Income	5,944,919	25%	
High Yield Fixed Income	1,296,668	6%	
International Fixed Income	2,068,290	9%	
Real Estate	2,238,681	10%	
Private Equity	734,567	3%	
Cash Equivalents	98,846	<1%	
TOTAL FUND	\$ 23,017,396	100%	-4.69%



RETIREMENT PLAN FOR EMPLOYEES OF JOB SERVICE NORTH DAKOTA

■ Job Service ND Investment Objectives and Policy Guidelines

The Retirement Plan for the Employees of Job Service North Dakota (Plan) is a defined benefit retirement plan for the eligible employees hired before October 1, 1980. There have been no new entrants to the plan since October 1, 1980. The plan provides retirement benefits, disability benefits and survivor benefits consistent with the written Plan document. Until October 1, 1993, annuities were purchased from the Travelers for retirees, since that date retiree benefits are paid from Plan assets. Annual cost of living adjustments for all Plan pensioners including annuitants with the Travelers are paid from Plan assets. The NDPERS Board (the Board) is the Plan Administrator and administers the Plan in accord with Chapter 52-11 of the North Dakota Century Code.

Job Service North Dakota as the employer contributes 4% of the active participant's salary as a contribution 'on behalf of the employee' and the active participants pay 3% of their salary into Plan assets.

Each year the Plan has an actuarial valuation performed. The current actuarial assumed rate of return on assets is 7.5%.

Responsibilities and Discretion of the State Investment Board

Aggregate plan contributions plus earnings, minus allowable expenses constitute the Fund. The Board is charged by NDCC chapters 54-52, 21-10-01, and 39-03.1 to establish policies for the investment goals and asset allocation of the Fund. The State Investment Board (SIB) is charged with implementing the asset allocation as promptly and prudently as possible in accordance with the Board's policies by investing the assets of the Fund in the manner provided in the prudent investor rule, which provides:

Fund fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives. (NDCC 21-10-07)

The SIB may delegate investment responsibility of the Fund or any portion of the Fund to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy is supervisory not advisory.

The SIB may at its discretion, pool the assets of the Fund with another fund or funds having similar investment objectives and time horizons in order to maximize returns and minimize costs. In pooling fund assets the SIB will establish asset class pools it deems necessary to achieve the specific quality, diversification, restrictions, and performance objectives subject to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing the selection criteria, determining the performance measures, and retaining all fund money managers. SIB is also responsible for the selection and retention of any investment consultants that may be employed in the investment of the Fund assets.

Delegation of Authority

Management responsibility for the investment program not assigned to the North Dakota State Investment Board (SIB) in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

Such procedures must provide for:

1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1)(a).
2. Investment diversification, investment quality, qualification of advisory services, and amounts to be invested by advisory services pursuant to NDCC 21-10-02.1(1)(e). In developing these policies it is understood:
 - a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
 - b. Derivatives use will be monitored to ensure that risks are not taken by the money managers.
 - c. All assets must be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
3. Guidelines for the selection and redemption of investments pursuant to NDCC 21-10-02.1(1)(d).
4. The criteria for making decisions with respect to hiring, retention, and termination of money managers will be clearly defined. This also

includes selecting performance measurements, consultants, report formats, and frequency of meetings with money managers.

All participants in the investment process must seek to act responsibly as custodians of the public trust.

Investment Goals

The investment objectives of the Plan have been established by the Plan's Administrator upon consideration of its strategic objectives and a comprehensive review of current and projected financial requirements.

Objective #1: To maintain a level of surplus sufficient to eliminate the need for future contributions;

Objective #2: To achieve a rate of return which exceeds the rate of inflation, as measured by the Consumer Price Index (CPI), by 3.0 percent per year (based on current actuarial assumptions of 8% return and 5% inflation), over a complete market cycle; and

Objective #3: As a secondary objective, to maximize the Plan's surplus to increase future benefit payments.

Investment Performance Objectives

The NDPERS Board will seek to make investments that generate sufficient return to meet the goals outlined in this policy. The objectives established in this section are in accordance with the fiduciary requirement in federal and state law.

It is in the best interest of NDPERS and its beneficiaries that performance objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Statement of Investment Goals, Objectives and Policies.

- a. The funds rate of return, over the long term should equal that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
- c. Over 10-year and longer periods the fund should match or exceed the expected rate of return projected in the most recent asset/liability study without exceeding the expected risk for the period as measured by standard deviation.

Asset Allocation

The NDPERS as plan Administrator establishes the asset allocation of the Fund, with input from

consultants and SIB staff. The current asset allocation is based upon the asset/liability study completed by Buck Consultants in May 2002. That study provided an appraisal of current cash flow projections and estimates of the investment returns likely to be achieved by the various asset classes over the next 20 years.

In recognition of the Plan's objectives, projected financial status, and capital market expectations, the following asset allocation options were deemed appropriate for the Fund:

Domestic Large Cap Equity	30%
Domestic Small Cap Equity	5%
International Equity	5%
Domestic Fixed Income	55%
International Fixed Income	5%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

Restrictions

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Plan's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- d. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- e. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Plan with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Plan to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

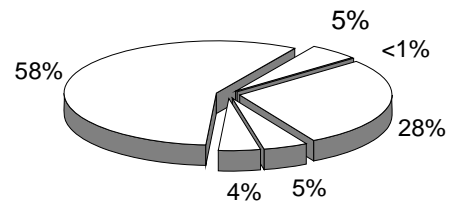
Internal Controls

The SIB must have a system of internal controls to prevent losses of public funds arising from fraud or employee error. The controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

■ Job Service ND

Actual Asset Allocation – June 30, 2008

<u>Asset Allocation</u>	<u>Market Value</u>	<u>Percent of Total</u>	<u>One Year Return</u>
Domestic Large Cap Equity	\$ 25,140,585	28%	
Domestic Small Cap Equity	4,361,236	5%	
International Equity	3,997,997	4%	
Domestic Fixed Income	51,856,641	58%	
International Fixed Income	4,544,339	5%	
Cash Equivalents	107,901	<1%	
TOTAL FUND	\$ 90,008,699	100%	-1.64%



CITY OF FARGO EMPLOYEE PENSION PLAN

■ City of Fargo Employee Pension Plan Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The City Employees Pension Fund is operated by the Pension Board pursuant to the authority granted in the City of Fargo Home Rule Charter, Chapter 6-02. This fund is managed by a seven person Board elected by the membership, or appointed by ordinance. Two members are elected every two years on a rotating basis. Elections are held in July of each year.

Plan Description The City of Fargo Employees' Pension plan is a cost-sharing multiple employer public employee retirement system. The plan is integrated with social security and therefore, is considered a supplemental plan. All full-time City employees not covered by another plan are eligible for participation in the Employees' Pension Plan.

Membership in the plan on January 1, 2007 (date of most recent actuarial study) is as follows:

Retirees and beneficiaries	182
Terminated vested and deferred beneficiaries	8
Active plan members	502

Number of participating employers: 2

Employees may be eligible for early, normal or disability retirement. The plan permits early retirements at age 55 with at least 5 years of service. Normal retirement age for full benefits is age 62 or when an employee's age plus their years of service as a full time city employee reaches a sum of 90.

Employee death benefits of \$20,000 are paid to a designated beneficiary for a participant who dies prior to retirement. If a participant dies after retirement, the designated beneficiary will receive a \$3,000 death benefit.

Participants are fully vested in the plan benefit after five years of full-time employment. Non-vested participants are eligible for a full refund of their contributions plus interest at 5%. Upon termination of employment prior to retirement age, vested participants may elect a deferred vested benefit to begin between ages 55-62 or a lump sum payment. Lump sum settlements are allowable up to age 55. Lump sum payments are computed as the greater of the actuarial value of plan assets or the "cash balance" in their plan account. The cash balance consists of the employee contributions, plus one-half of the employer's contribution since January 1, 1990, plus interest at 5%.

The City makes a matching contribution of \$25 per month to a deferred compensation plan on behalf of pension plan members who also contribute a

minimum of \$25 per month to the deferred compensation plan.

Benefit provisions are established under the authority of the City Commission.

Contributions Participating employees contribute to the plan at a rate of 4.5% of salary and the employers contribute at a rate of 6.0% of regular salary for all employees. The contribution rates are established by local ordinance, and the employers contribution rate is set by the City Commission. Costs of administering the plan are financed by the employer and employee contributions, and by the Plan's investment earnings.

Reserves The net assets at December 31, 2006 are \$30,248,640 and the entire amount is reserved for employee pension benefits.

Responsibilities and Discretion of the State Investment Board (SIB)

Aggregate plan contributions plus earnings, minus allowable expenses constitute the Fund. The City Employees Pension Board is required to develop asset allocation plans pursuant to its responsibilities are outlined in the City of Fargo Home Rule Charter, Chapter 6-02. The State Investment Board (SIB) is charged with implementing the asset allocation as promptly and prudently as possible in accordance with the Board's policies by investing the assets of the Fund in the manner provided in the prudent investor rule, which provides:

Fund fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the City Employees Pension Fund must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives.

The SIB may delegate investment responsibility of the Fund or any portion of the Fund to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy is supervisory not advisory.

The SIB may, at its discretion, pool the assets of the Fund with another fund or funds having similar investment objectives and time horizons in order to maximize returns and minimize costs. In pooling fund assets the SIB will establish asset class pools it deems necessary to achieve the specific quality, diversification, restrictions, and performance objectives

subject to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing the selection criteria, determining the performance measures, and retaining all fund money managers. SIB is also responsible for the selection and retention of any investment consultants that may be employed in the investment of the Fund assets.

Delegation of Authority

Management responsibility for City of Fargo City Employee Pension funds not assigned to the North Dakota State Investment Board (SIB) in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, which must establish written policies and procedures for the operation of the City of Fargo City Employee Pension funds, consistent with this investment policy.

Such procedures must provide for:

1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1)(a).
2. Investment diversification, investment quality, qualification of money managers, and amounts to be invested by money managers pursuant to NDCC 21-10-02.1(1)(e). In developing these policies it is understood:
 - a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
 - b. The use of derivatives will be monitored to ensure that risks are not taken by the money managers.
 - c. All assets must be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
3. Guidelines for the selection and redemption of investments will be in accordance with NDCC 21-10-02.1(1)(d).
4. The criteria for making decisions with respect to hiring, retention, and termination of money managers will be clearly defined. This also includes selecting performance measurement standards, consultants, report formats, and frequency of meetings with money managers.

All participants in the investment process must seek to act responsibly as custodians of the public trust.

Investment Goals

The investment goals of the Fund have been established by the City Employee Pension Board based upon consideration of the Board's strategic objectives and a comprehensive review of the current and projected financial requirements. These goals are to be viewed over the long term.

Goal #1: Accumulate sufficient wealth through a diversified portfolio of investments which will enable the City Employee Pension fund to pay all current and future retirement benefits and expense obligations of the Fund.

Goal #2: To obtain investment returns in excess of that needed to allow for increases in the benefit plan multiplier over time.

Investment Performance Objective

The City Employee Pension Board will seek to make investments that generate sufficient return to meet the goals outlined in this policy. The objectives established in this section are in accordance with the fiduciary requirement in federal and state law and City Ordinances.

It is in the best interest of the City Employee Pension Board and its beneficiaries that performance objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Statement of Investment Goals, Objectives and Policies.

- a. The funds rate of return, over the long term should equal, that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
- c. Over 10-year and longer periods the fund should match or exceed the expected rate of return projected in the most recent actuarial study without exceeding the expected risk for the period as measured by standard deviation.

Asset Allocation

In recognition of the plan's performance objectives, benefit projections, and capital market expectations, the City Employee Pension Board has established the following asset allocation:

Domestic Equities-Large Cap	30%
Domestic Equities-Small Cap	10%
International Equities	10%
Emerging Markets Equities	5%
Domestic Fixed Income	24%
High Yield Fixed Income	5%
International Fixed Income	5%
Real Estate	5%
Private Equity	5%
Cash	1%
Expected Return	9.3%
Standard Deviation of Returns	10.5%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

Restrictions

- A. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- B. Use of derivatives will be monitored to ensure that undue risks are not taken by the money managers.
- C. No transaction may be made which threatens the tax exempt status of the Fund.
- D. No unhedged short sales or speculative margin purchases may be made.
- E. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- F. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

Economically targeted investing is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a

targeted geographic area, group of people, or sector of the economy.

The Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

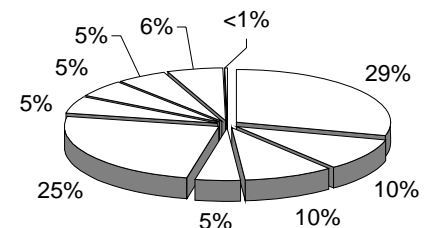
Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

The SIB must have a system of internal controls to prevent losses of public funds arising from fraud or employee error. The controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

■ **City of Fargo Employee Pension Plan Actual Asset Allocation – June 30, 2008**

<u>Asset Allocation</u>	<u>Market Value</u>	<u>Percent of Total</u>	<u>One Year Return</u>
Domestic Large Cap Equity	\$ 8,638,813	29%	
Domestic Small Cap Equity	2,962,558	10%	
International Equity	2,823,992	10%	
Emerging Markets Equity	1,395,911	5%	
Domestic Fixed Income	7,342,125	25%	
High Yield Fixed Income	1,577,437	5%	
International Fixed Income	1,515,737	5%	
Real Estate	1,594,803	5%	
Private Equity	1,684,651	6%	
Cash Equivalents	121,533	<1%	
TOTAL FUND	\$ 29,657,560	100%	*



* This fund does not have the specified history under SIB management.

WORKFORCE SAFETY & INSURANCE FUND

■ Workforce Safety & Insurance Fund Investment Objectives and Policy Guidelines

Introduction

North Dakota Workforce Safety & Insurance (WSI) is an exclusive state workers' compensation fund, which exists for the mutual benefit of North Dakota employers and employees. The assets of WSI are utilized to pay benefits to injured workers or their survivors.

Section 65-04-01 of the North Dakota Century Code requires WSI to establish premium rates for funding sufficiently high to provide for:

1. The payment of the expenses of administration of the organization,
2. The payment of compensation according to the provisions and schedules contained in this title, and
3. The maintenance by the Fund of adequate reserves and surplus to the end that it may be kept at all times in an entirely solvent condition.

Responsibilities of the North Dakota State Investment Board (SIB)

The WSI Board is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory not advisory.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment goal of WSI is to supplement premiums, through various investments, to accomplish its statutory obligations.

The following investment objectives are established as of the date adopted and are in keeping with the fiduciary requirements as set forth in federal and state law and as expected by the members. WSI expects to receive results from the SIB that are consistent with the policies included herein. These objectives and guidelines will provide a basis for evaluating the effectiveness of the investment program over time. It is clearly understood these objectives and standards are to be viewed over the long term and have been established after full consideration of all factors set out in the Statement of Investment Policy.

The operating and liquidity needs of WSI are generally to be met by the cash equivalents allocation.

Funds in excess of those required for operating and liquidity needs will be invested in domestic equity, international equity, real estate and fixed income securities. The objective of these assets is to obtain the maximum total return on investments consistent with safety of principal on funds in excess of those required for operating and liquidity needs.

Standards of Investment Performance

The Fund's investment objectives and characteristics give rise to an asset allocation that is considered to have greater than a 50% probability of achieving the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that at least matches that of the policy portfolio, which is comprised of 9.75% S&P 500 domestic stock index, 3.25% Russell 2000 domestic stock, 8% MSCI EAFE international stock index, 50% Lehman Aggregate bond index, 22% Lehman Treasury Inflation Protected bond index, 6% NCREIF Total real estate index, and 1% 90-day T-bills.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
- c. Over 10 year and longer time periods the Fund should match or exceed the expected 5.75% rate of return assumed in the asset/liability study. Expected risk for the period, measured by standard deviation, is 5.65%.

Policy and Guidelines

The asset allocation policy developed herein is based on an evaluation of WSI's ability and willingness to assume investment risk in light of WSI's financial goals and objectives. In recognition of these goals and objectives, coupled with a liability-sensitive asset allocation study conducted by Callan Associates in May, 2005, the following asset allocation is deemed appropriate for WSI. The portfolio mix shall be in accordance with the following asset allocation and periodically reviewed by WSI.

<u>Asset Class</u>	<u>Target Allocation</u>
Large Cap Equity	9.75%
Small Cap Equity	3.25%
International Equity	8.00%
Domestic Fixed Income	50.00%
TIPS	22.00%
Real Estate	6.00%
Cash Equivalents	1.00%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
- c. No transaction shall be made which threatens the tax exempt status of the Fund.
- d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

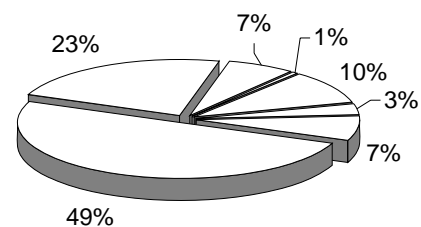
Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

■ **Workforce Safety & Insurance Fund**
Actual Asset Allocation – June 30, 2008

<u>Asset Allocation</u>		<u>Market Value</u>	<u>Percent of Total</u>	<u>One Year Return</u>
Domestic Large Cap Equity	\$	120,851,609	10%	
Domestic Small Cap Equity		40,203,773	3%	
International Equity		91,334,458	7%	
Fixed Income		627,963,889	49%	
Inflation Protected		286,151,696	23%	
Real Estate		84,203,644	7%	
Cash Equivalents		8,442,930	1%	
TOTAL FUND	\$	<u>1,259,151,999</u>	<u>100%</u>	<u>0.57%</u>



STATE FIRE AND TORNADO FUND

■ State Fire and Tornado Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The State Fire and Tornado Fund (the Fund) was established in 1919 to insure the various state industries and political subdivisions against direct physical loss to public buildings, fixtures, and permanent contents due to the perils named in 26.1-22-02 of the North Dakota Century Code (NDCC). All state buildings and universities must be covered by the Fund. School districts and counties may participate at their option.

Funding is primarily provided by annual premiums charged to policyholders in accordance with NDCC 26.1-22. Premiums are expected to total approximately \$5.1 million annually, with the bulk of these premiums received at the beginning of each fiscal year. A 50% credit will be applied to the July, 2007 invoices.

Effective August 1993, the state's boiler inspection program was placed under the direction of the Insurance Department. The costs of this program are appropriated from the Fund. Fees collected for boiler inspections and licensing will be the primary source of funding for the program. The 1995 Legislature added anhydrous ammonia storage facilities to the Fund's inspection responsibilities.

A minimum balance of \$12.0 million must be maintained at all times. If reserves drop below this statutory minimum, additional premiums, as specified under NDCC 26.1-22, would be assessed. This situation must be avoided.

The Fund retains liability for the first \$1 million on each and every loss. Any loss over this amount, up to a maximum of \$100 million, is covered by reinsurance through a commercial reinsurance carrier. Reinsurance coverage is re-bid by the Insurance Department every two years.

Claims paid from the Fund are highly unpredictable. Weather damage accounts for the majority of claims. Fires generally result in the most extensive damage.

Generally, there is a two week lead time to prepare for a claim payment. Large claim payments have a longer lead time and are spread out in multiple payments whenever possible. Total claim payments and transfers over the last three fiscal years have averaged \$1.7 million annually.

Operating expenses are paid from the Fund as incurred. These include Fund administration, boiler inspection program, anhydrous ammonia storage

facility inspections, State Fire Marshall's Office, and State Firemen's Association. For planning purposes over the 2007-2009 biennium, these appropriations were assumed to be \$569,000 annually.

The Fund's asset allocation will need to be reviewed at the end of the 2007-2009 biennium for appropriateness.

Responsibilities and Discretion of the State Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives of the Fund reflect the long-term nature of the Fund, but also the low risk tolerance and shorter-term liquidity needs. Operating and statutory considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Investment income is needed to provide stability for insurance reserves. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of surplus. Capital growth will be sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity will be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments shall be used to achieve this objective.

Objective #4: The risk of violating the statutory minimum balance requirement of \$12,000,000 is to be minimized. This will be achieved by an asset allocation consistent with this objective.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
- c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.48% rate of return based on 2007 market projections. Expected risk for the period, measured by standard deviation, is 7.00%.

Policy and Guidelines

The asset allocation of the Fund is established by the SIB, with input from the Insurance Department. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Large Cap Domestic Equity	18.75%
Small Cap Domestic Equity	6.25%
International Equity	10.00%
Fixed Income	55.00%
Cash Equivalents	10.00%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- d. No funds shall be borrowed.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

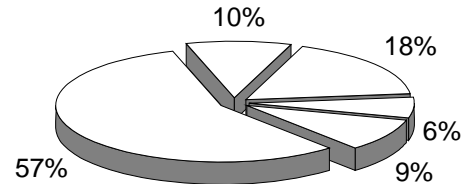
Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

■ **State Fire and Tornado Fund**
Actual Asset Allocation – June 30, 2008

<u>Asset Allocation</u>	<u>Market Value</u>	<u>Percent of Total</u>	<u>One Year Return</u>
Domestic Large Cap Equity	\$ 4,585,990	18%	
Domestic Small Cap Equity	1,500,484	6%	
International Equity	2,403,238	9%	
Fixed Income	14,553,262	57%	
Cash Equivalents	2,656,655	10%	
TOTAL FUND	\$ 25,699,629	100%	-4.01%



STATE BONDING FUND

■ State Bonding Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The State Bonding Fund (the Fund) was established for bonding public employees and public officials in accordance with Chapter 26.1-21 of the North Dakota Century Code (NDCC). Annual collections to the Fund are in the form of fees and restitution. However, the primary funding source for the Fund is investment return.

A minimum balance of \$2.0 million must be maintained at all times. If reserves drop below this statutory minimum, premiums will be assessed against all bond holders in accordance with NDCC 26.1-21-09. Such premiums will continue to be charged until the Fund balance reaches \$3.0 million. This situation must be avoided.

Claims paid from the Fund are on an as-needed basis and are highly unpredictable. A judgment against the guilty party is required prior to the Fund making a claim payment. Generally, there is a 60-90 day lead time to prepare for a claim payment. Claims have averaged \$48,000 annually over the last three fiscal years.

Appropriations from the Fund are exclusively for administrative costs. For planning purposes during the 2007-2009 biennium, these appropriations are assumed to be \$17,500 annually.

The Fund's asset allocation will need to be reviewed at the end of the 2007-2009 biennium for appropriateness.

Responsibilities and Discretion of the State Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish appropriate asset class pools designed to provide specific quality and diversification guidelines, restrictions, and performance objectives consistent with the goals of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives of the Fund reflect the long-term nature of the Fund, but also recognize the shorter-term liquidity needs. Operating and statutory considerations shape the policies and priorities outlined below.

Objective #1: Investment income is needed as a funding source. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of surplus. Capital growth is sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity will be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments shall be used to achieve this objective.

Objective #4: The risk of violating the statutory minimum balance requirement of \$2,000,000 is to be minimized. This will be achieved by an asset allocation consistent with this objective.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
- c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.48% rate of return based on Callan Associates' 2007 market projections. Expected risk for the period, measured by standard deviation, is 7.00%.

Policy and Guidelines

The asset allocation of the State Bonding Fund is established by the SIB, with input from the Insurance Department. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Large Cap Domestic Equity	18.75%
Small Cap Domestic Equity	6.25%
International Equity	10.00%
Fixed Income	55.00%
Cash Equivalents	10.00%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- No funds shall be borrowed.
- No unhedged short sales or speculative margin purchases shall be made.
- Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a

similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

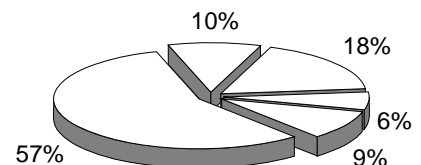
Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

■ State Bonding Fund Actual Asset Allocation – June 30, 2008

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	\$ 454,202	18%	
Domestic Small Cap Equity	148,661	6%	
International Equity	238,041	9%	
Fixed Income	1,441,116	57%	
Cash Equivalents	263,002	10%	
TOTAL FUND	\$ 2,545,022	100%	-4.14%



PETROLEUM TANK RELEASE COMPENSATION FUND

■ Petroleum Tank Release Compensation Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The Petroleum Tank Release Compensation Fund (the Fund) was established in 1989 in response to the Environmental Protection Agency's (EPA) requirement that all underground storage tank owners have proof of financial responsibility. Operation of the Fund is in accordance with the 1991 Session Laws, Chapter 299. The Fund's "sunset clause" date of June 30, 2011, has been extended and the time horizon for this Fund is uncertain at this time.

Funding is provided by annual premiums collected for above ground and subterranean petroleum storage tanks. Registration of tanks with the Fund is mandatory, although certain types of tanks are excluded. Premiums are estimated to total \$295,000 annually during the current biennium.

A statutory minimum balance of \$6 million must be maintained in the Fund. Also, a minimum balance of \$2 million is required by EPA. In the event reserves drop below this minimum, EPA would evaluate the Fund's ability to pay claims and would in all likelihood disapprove the Fund as a financial responsibility mechanism for North Dakota petroleum tank owners.

If a petroleum release occurs or petroleum contamination is discovered, an eligible tank owner is reimbursed 90% of necessary and reasonable costs between \$5,000 and \$155,000 for cleanup of contamination or third-party liability. The Fund reimburses 100% of costs between \$155,000 and \$1,000,000. Claims have averaged \$596,000 annually over the last three fiscal years.

Operating expenses are paid from the Fund as incurred. For planning purposes over the 2007-2009 biennium, these appropriations were assumed to be \$60,000 annually.

The Fund's asset allocation will need to be reviewed at the end of the 2007-2009 biennium for appropriateness.

Responsibilities and Discretion of the State Investment Board (SIB)

The Fund is charged by law under Chapter 285 of the 1993 Session Laws with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB

may establish appropriate asset class pools designed to provide specific quality and diversification guidelines, restrictions, and performance objectives consistent with the goals of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives of the Fund reflect the need to augment premium income to provide for claim payments and stability of insurance reserves. Operating considerations shape the Fund's policies and priorities as follows:

Objective #1: Investment income is needed as a funding source. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of surplus. Capital growth is sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity will be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments shall be used to achieve this objective.

Objective #4: The risk of violating the EPA mandated minimum balance requirement of \$2,000,000 is to be minimized. This will be achieved by an asset allocation consistent with this objective.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
- c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.42% rate of return based on Callan Associates' 2007 market projections. Expected risk for the period, measured by standard deviation, is 6.87%

Policy and Guidelines

The asset allocation of the Fund is established by the SIB, with input from the Insurance Department. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Large Cap Domestic Equity	18.75%
Small Cap Domestic Equity	6.25%
International Equity	10.00%
Fixed Income	50.00%
Cash Equivalents	15.00%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- d. No funds shall be borrowed.
- e. No unhedged short sales or speculative margin purchases shall be made.

■ **Petroleum Tank Release Compensation Fund** **Actual Asset Allocation – June 30, 2008**

<u>Asset Allocation</u>	<u>Market Value</u>	<u>Percent of Total</u>	<u>One Year Return</u>
Domestic Large Cap Equity	\$ 1,525,573	18%	
Domestic Small Cap Equity	498,912	6%	
International Equity	799,120	9%	
Fixed Income	4,403,444	51%	
Cash Equivalents	1,326,384	16%	
TOTAL FUND	\$ 8,553,433	100%	-4.07%

- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

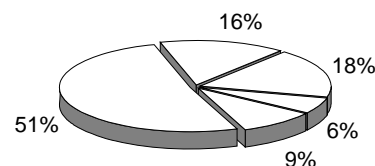
- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.



INSURANCE REGULATORY TRUST FUND

■ Insurance Regulatory Trust Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The Insurance Regulatory Trust Fund (the Fund) was established for use by the Insurance Department to defray the expenses incurred in discharging its duties as described in NDCC 26.1.

Funding is provided primarily through the collection of fees and fines as specified in NDCC 26.1-01-07.1. Fees and other collections are expected to total approximately \$4.5 million annually, with the bulk of this income received in the second half of each fiscal year. Earnings from investments are also considered a funding source.

There is no statutory minimum balance for this Fund. However, the Insurance Department relies entirely on the Fund to meet all operating expenses. Therefore, sufficient liquidity and risk control must be maintained at all times to ensure the solvency of the Insurance Department.

In accordance with NDCC 26.1-01-07.1, any cash balance in the Fund after all current biennium expenditures are met must be carried forward for the succeeding biennium. However, when the balance at the end of the biennium exceeds \$1.0 million, any excess will be transferred to the general fund in the state treasury. Such transfers are generally made at the end of September or during the first two weeks of October.

Operating expenses are paid from the Fund as incurred. For planning purposes over the 2007-2009 biennium, these appropriations were assumed to be \$2.8 million annually.

The Fund's asset allocation will need to be reviewed at the end of the 2007-2009 biennium for appropriateness.

Responsibilities and Discretion of the State Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish appropriate asset class pools designed to provide specific quality and diversification guidelines, restrictions, and performance objectives consistent with the goals of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives of the Fund reflect moderate risk tolerance and short-term liquidity needs. The increasing need to augment fee income as growth in expenses outpaces traditional funding sources is also recognized.

Objective #1: Investment income is needed as a funding source. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of the Fund. Capital growth is sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity will be maintained to meet known or anticipated financial obligations. Cash equivalent investments shall be used to achieve this objective.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
- c. Over 10 year and longer time periods the Fund should match or exceed the expected 5.98% rate of return based on Callan Associates' 2007 market projections. Expected risk for the period, measured by standard deviation, is 5.70%.

Policy and Guidelines

The asset allocation of the Fund is established by the SIB, with input from the Insurance Department. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Large Cap Domestic Equity	15%
Small Cap Domestic Equity	5%
International Equity	10%
Fixed Income	35%
Cash Equivalents	35%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- No funds shall be borrowed.
- No unhedged short sales or speculative margin purchases shall be made.
- Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide

an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as "The investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

- Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

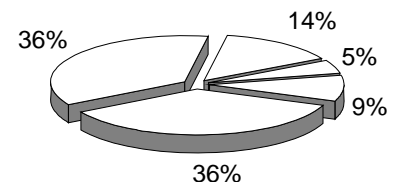
Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- The cost does not exceed the fair market value at the time of investment.
- The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

■ Insurance Regulatory Trust Fund Actual Asset Allocation – June 30, 2008

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	\$ 580,483	14%	
Domestic Small Cap Equity	189,952	5%	
International Equity	380,210	9%	
Fixed Income	1,464,845	36%	
Cash Equivalents	1,471,936	36%	
TOTAL FUND	\$ 4,087,426	100%	-2.71%



NORTH DAKOTA HEALTH CARE TRUST FUND

■ North Dakota Health Care Trust Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

Through the passage of House Bill 1196, the 2001 North Dakota Legislature created a special fund, in the State Treasury, known as the North Dakota Health Care Trust Fund (the Fund). The Fund consists of revenue received from government nursing facilities for remittance to the Fund under Section 50-24.4-30. Section 13 of House Bill 1196 provides that the State Investment Board (SIB) shall invest moneys in the Fund in accordance with Chapter 21-10, and the income earned must be deposited in the Fund. All moneys deposited in the Fund are available to the Department of Human Services for payment as authorized by legislative appropriations and for transfer to the long-term care facility loan fund as authorized by legislative appropriation.

Responsibilities and Discretion of the SIB

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives are to obtain a reasonable rate of return on the Fund while maintaining sufficient liquidity to meet known or anticipated financial obligations. Operating and statutory considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments will be used to achieve this objective.

Objective #2: Investment income is needed to provide stability for the Fund. This will be achieved through investment in certificates of deposit and cash equivalents.

Policy and Guidelines

The asset allocation of the Fund is established by the SIB, with input from the North Dakota Department of Human Services. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Cash Equivalents & CD's	100%
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Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
- No funds shall be borrowed.
- No unhedged short sales or speculative margin purchases shall be made.
- Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide

an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as "The investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

■ **North Dakota Health Care Trust Fund**
Actual Asset Allocation – June 30, 2008

<u>Asset Allocation</u>	<u>Market Value</u>	<u>Percent of Total</u>	<u>One Year Return</u>
Cash Equivalents & CD's	<u>2,284,976</u>	<u>100%</u>	
TOTAL FUND	<u>\$ 2,284,976</u>	<u>100%</u>	<u>3.43%</u>

STATE RISK MANAGEMENT FUND

■ State Risk Management Fund Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

To address the State's loss of sovereign immunity, the 1995 North Dakota Legislature created a new chapter of the North Dakota Century Code (NDCC), 32-12.2. That Chapter established the Risk Management Fund (the Fund) to administer claims against the State and state employees for personal injury, death, or property damage caused by the State or a state employee acting within the scope of the employee's employment. The Fund is directed by the Office of Management and Budget (OMB).

Each entity of the State is required to participate in the Fund. Contributions to the Fund are determined by the Director of OMB based on an actuarial review of the financial status of the Fund. This results in a fluctuation of contributions made to the Fund from one biennium to another.

The amount of money damages the Fund may pay is limited for state court actions to a total of \$250,000 per person and \$1,000,000 per occurrence. These liability caps may not be recognized in Federal Court actions or in actions filed in other states. The Fund's excess carrier provides coverage up to \$10,000,000 for those exposures not covered by the Tort Claims Act.

Significant claims paid from the Fund are usually somewhat predictable and take a period of time to resolve. A person bringing a claim or lawsuit against the State or a state employee must give notice to the OMB Director within 180 days after the alleged injury is discovered or reasonably should have been discovered. If the claim is one for death, the notice must be provided within one year after the alleged injury resulting in the death.

The Risk Management Division's operating expenses including loss control activities are paid from the Fund as incurred.

The Fund's asset allocation will need to be reviewed at the end of the 2007-2009 biennium for appropriateness.

Responsibilities of the State Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives of the Fund reflect the long-term nature of the Fund, but also the low risk tolerance and shorter-term liquidity needs. Operating and statutory considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Investment income is needed to provide stability for insurance reserves. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of surplus. Capital growth will be sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments will be used to achieve this objective.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
- c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.34% rate of return based on Callan Associates' 2007 market projections. Expected risk for the period, measured by standard deviation, is 6.59%.

Policy and Guidelines

The asset allocation of the Fund is established by the SIB, with input from the OMB. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Large Cap Domestic Equity	22.5%
Small Cap Domestic Equity	7.5%
Fixed Income	65.0%
Cash Equivalents	5.0%

Rebalancing of the Fund to this allocation will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- d. No funds shall be borrowed.
- e. No unhedged short sales or speculative margin purchases shall be made.

- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as "The investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

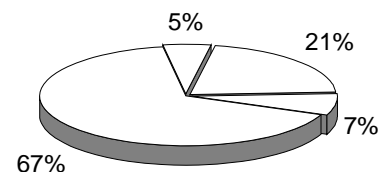
- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

■ **State Risk Management Fund**

Actual Asset Allocation – June 30, 2008

<u>Asset Allocation</u>	<u>Market Value</u>	<u>Percent of Total</u>	<u>One Year Return</u>
Domestic Large Cap Equity	\$ 767,513	21%	
Domestic Small Cap Equity	250,922	7%	
Fixed Income	2,398,664	67%	
Cash Equivalents	185,642	5%	
TOTAL FUND	\$ 3,602,741	100%	-2.70%



STATE RISK MANAGEMENT WORKERS COMPENSATION FUND

■ State Risk Management Workers Comp Fund Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The 2001 North Dakota Legislature established a single workers' compensation account for state entities, N.D.C.C. § 65-04-03.1. N.D.C.C. § 65-04-03.1(2) directs that workers' compensation premiums from state entities must be deposited in the Risk Management Workers Compensation Fund (Fund) and the State Investment Board is directed to invest the Fund in accordance with chapter 21-10.

The Risk Management Division of the Office of Management and Budget is responsible for administering the Fund to include promulgating rules, collecting and dispersing funds, and establishing an internal workers' compensation return-to-work program. Each entity of the State is required to participate in the program unless exempted by the director of the Office of Management and Budget. Contributions to the Fund are determined by Workforce Safety & Insurance (WSI) based on an actuarial review of combined payroll, premium, and loss history of agencies to determine experience rates, assessments, and premiums.

The Risk Management Workers Compensation Program charges the entity the first \$250 (\$0 if a designated medical provider is used for treatment) of each accepted claim and pays disability and medical benefits of up to \$100,000 dollars per claim. Dollar amounts for claims in excess of \$100,000 are paid for by WSI. In turn the Program pays WSI approximately \$1.7 million per year in premiums.

The Fund's asset allocation will need to be reviewed at the end of the 2007-2009 biennium for appropriateness.

Responsibilities of the State Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives of the Fund reflect the long-term nature of the Fund, but also the low risk tolerance and shorter-term liquidity needs. Operating and statutory considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Investment income is needed to provide stability for insurance reserves. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of surplus. Capital growth will be sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments will be used to achieve this objective.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
- c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.64% rate of return based on Callan Associates' 2007 market projections. Expected risk for the period, measured by standard deviation, is 7.57%.

Policy and Guidelines

The asset allocation of the Fund is established by the SIB, with input from the OMB. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Large Cap Domestic Equity	27.75%
Small Cap Domestic Equity	9.25%
Fixed Income	60.00%
Cash Equivalents	3.00%

Rebalancing of the Fund to this allocation will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
- No funds shall be borrowed.
- No unhedged short sales or speculative margin purchases shall be made.
- Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a

similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as "The investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

- Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

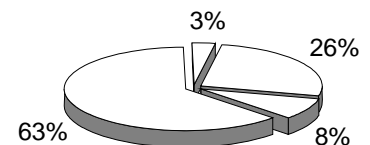
Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

■ **State Risk Management WC Fund**
Actual Asset Allocation – June 30, 2008

<u>Asset Allocation</u>	<u>Market Value</u>	<u>Percent of Total</u>	<u>One Year Return</u>
Domestic Large Cap Equity	\$ 797,078	26%	
Domestic Small Cap Equity	259,169	8%	
Fixed Income	1,911,050	63%	
Cash Equivalents	94,366	3%	
TOTAL FUND	\$ 3,061,663	100%	-3.99%



NORTH DAKOTA ASSOCIATION OF COUNTIES

■ ND Association of Counties (NDACo) Fund and NDACo Program Savings Fund Investment Objectives and Policy Guidelines

Introduction

The North Dakota Association of Counties (NDACo) (Funds) was established to aid in the administration of county government by providing a medium for exchange of information, ideas, and experience of county officials; promote training; facilitate cooperation with all levels of government; and be a legislative advocate for counties. NDACo and the benefits provided thereunder are funded by dues from member counties and special programs and projects of NDACo.

The NDACo has chosen to segregate these monies into two separate fund (Funds) with identical investment policies. This statement governs both Funds.

Responsibilities and Discretion of the State Investment Board (SIB)

NDACo has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. It is the responsibility of NDACo to establish policies on investment goals and asset allocation of the Funds. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Funds in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Funds' assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

Funds in excess of those required for operating and claims payment needs will be invested to obtain the maximum total return on investments consistent with safety of principal on funds in excess of those required for operating and claims payment needs. The investment fund(s) may be comprised of fixed income securities and equity securities. Individual investments may be either actively or passively managed.

Standards of Investment Performance

The Funds' investment objectives and liquidity constraints give rise to asset allocations that are considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Funds should produce rates of return that meet or exceed the portfolio policy index defined as 26.25% S&P 500 domestic stock index, 8.75% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 50% Lehman Brothers Aggregate domestic bond index, and 5% 90-day Treasury bills.
- b. The annual standard deviation of total returns for the Funds should not exceed that of the policy portfolio.
- c. Over 10 year and longer time periods the Funds should match or exceed the expected 6.65% rate of return based on Callan Associates' 2005 market projections. Expected risk for the period, measured by standard deviation, is 8.50%.

Policy and Guidelines

The asset allocation is established by the SIB, with input from NDACo. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocations are deemed appropriate for the funds.

<u>Asset Class</u>	<u>NDACo Fund</u>	<u>NDACo Program Savings</u>
Dom Lg Cap Equity	29.7%	26.2%
Dom Sm Cap Equity	12.0%	8.8%
Int'l Equity	13.3%	10.0%
Dom Fixed Income	40.0%	50.0%
Cash Equivalents	5.0%	5.0%

Rebalancing of the Funds to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Funds' assets will be invested, it is understood that:

- Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- No funds shall be borrowed.
- No unhedged short sales or speculative margin purchases shall be made.
- Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as "The investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

- Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

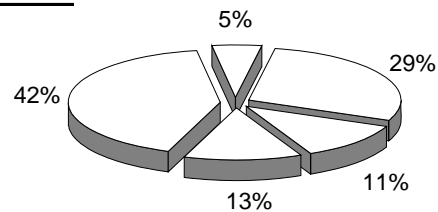
Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- The cost does not exceed the fair market value at the time of investment.
- The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Funds' policy favors investments which will have a positive impact on the economy of North Dakota.

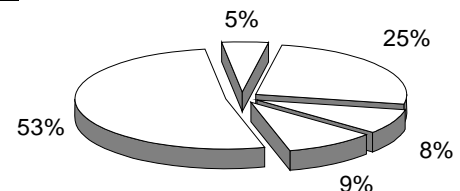
■ ND Association of Counties (NDACo) Fund Actual Asset Allocation – June 30, 2008

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	\$ 323,163	29%	
Domestic Small Cap Equity	128,921	11%	
International Equity	142,575	13%	
Fixed Income	471,310	42%	
Cash Equivalents	58,779	5%	
TOTAL FUND	\$ 1,124,748	100%	-7.79%



■ NDACo Program Savings Fund Actual Asset Allocation – June 30, 2008

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	\$ 202,560	25%	
Domestic Small Cap Equity	66,328	8%	
International Equity	76,225	9%	
Fixed Income	417,298	53%	
Cash Equivalents	41,265	5%	
TOTAL FUND	\$ 803,676	100%	-5.77%



CITY OF BISMARCK DEFERRED SICK LEAVE ACCOUNT

■ City of Bismarck Deferred Sick Leave Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The City of Bismarck Deferred Sick Leave Account (the Fund) represents money set aside to cover the City's unfunded liability of employees' accrued sick leave. People who terminate employment with the City shall be compensated for unused sick leave from this Fund. In time, it is expected that the Fund will become depleted.

Responsibilities and Discretion of the State Investment Board (SIB)

The City of Bismarck (Client) has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. It is the responsibility of the Client to establish policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish appropriate asset class pools designed to provide specific quality and diversification guidelines, restrictions, and performance objectives consistent with the goals of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives are to obtain a reasonable rate of return on the Fund while maintaining sufficient liquidity to meet known or anticipated financial obligations. Operating considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Investment income is needed as a funding source. This will be achieved through a

diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of the Fund. Capital growth is sought through investment in equities and/or equity substitutes.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 15% S&P 500 domestic stock index, 5% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 65% Lehman Aggregate domestic bond index, and 5% 90-day Treasury Bills.
- The annual standard deviation of total returns for the Fund should be consistent with that of the policy portfolio.
- Over 10 year and longer time periods the Fund should match or exceed the expected 6.00% rate of return based on Callan Associates' 2005 market projections. Expected risk for the period, measured by standard deviation, is 6.50%.

Policy and Guidelines

The asset allocation of the Fund is established by the City of Bismarck. Asset allocation is based upon the appraisal of projected liquidity requirements and sick leave payment demand, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Large Cap Domestic Equity	15%
Small Cap Domestic Equity	5%
International Equity	10%
Fixed Income	65%
Cash Equivalents	5%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.

- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- d. No funds shall be borrowed.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as "The investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return

commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

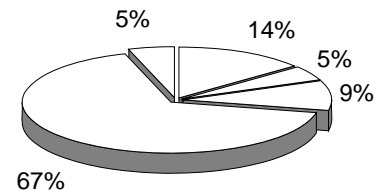
Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

■ City of Bismarck Deferred Sick Leave Actual Asset Allocation – June 30, 2008

<u>Asset Allocation</u>	<u>Market Value</u>	<u>Percent of Total</u>	<u>One Year Return</u>
Domestic Large Cap Equity	\$ 113,874	14%	
Domestic Small Cap Equity	37,307	5%	
International Equity	74,585	9%	
Fixed Income	533,948	67%	
Cash Equivalents	41,024	5%	
TOTAL FUND	\$ 800,738	100%	-3.20%



NDPERS GROUP INSURANCE ACCOUNT

■ NDPERS Group Insurance Account Investment Objectives and Policy Guidelines

Introduction

The NDPERS Group Insurance Account (the Fund) was established to hold insurance premiums collected from employers until paid to the insurance carrier.

Responsibilities and Discretion of the State Investment Board (SIB)

The assets are to be invested in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

Investment Objectives

Premiums are collected throughout the month at PERS and will be forwarded to the Fund investment account on the 1st and 15th of each month. The premiums transferred into the investment account will be transferred back to PERS on approximately the 22nd of each month so they may be remitted to the insurance carrier.

■ NDPERS Group Insurance Account Actual Asset Allocation – June 30, 2008

<u>Asset Allocation</u>	<u>Market Value</u>	<u>Percent of Total</u>	<u>One Year Return</u>
Cash Equivalents	<u>\$4,391,120</u>	<u>100%</u>	<u>3.43%</u>

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as the 90-day Treasury bill.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

Policy and Guidelines

The asset allocation is established by NDPERS. Asset allocation is based upon the appraisal of projected liquidity. In recognition of this factor, the following allocation is deemed appropriate for the Fund:

Cash Equivalents	100%
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This cash will be held in an enhanced money market account at the Bank of North Dakota.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- d. No funds shall be borrowed.
- e. No short sales or margin purchases shall be made.

CITY OF FARGO FARGODOME PERMANENT FUND

■ City of Fargo FargoDome Permanent Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The City of Fargo has set aside excess sales tax collections intended for the administration of the FargoDome in the FargoDome Permanent Fund (Fund). The initial amount in the fund is approximately \$2.8 million with additional deposits of \$1 million per year until 2009. No withdrawals are expected to be made until after 2009 when the sales tax revenue is discontinued.

Responsibilities of the State Investment Board (SIB)

The SIB is charged by law under NDCC 21-10 with the responsibility of establishing investment policy and investing the assets of the Fund. The assets are to be invested in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

Investment Objectives

The investment objectives are to obtain a reasonable rate of return on the Fund while maintaining sufficient liquidity to meet known or anticipated financial obligations. Operating considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Investment income is needed as a funding source. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of the Fund. Capital growth is sought through investment in equities and/or equity substitutes.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 37.5% S&P 500 domestic stock index, 12.5% Russell 2000 domestic small cap index, 49% Lehman Aggregate domestic bond index, and 1% 90-day Treasury bills.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
- c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.91% rate of return based on Callan Associates' 2005 market projections. Expected risk for the period, measured by standard deviation, is 9.47%.

Policy and Guidelines

The asset allocation of the Fund is established by the City of Fargo Finance Committee, with input from RIO staff. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Large Cap Domestic Equity	37.5%
Small Cap Domestic Equity	12.5%
Fixed Income	49.0%
Cash Equivalents	1.0%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
- d. No funds shall be borrowed.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

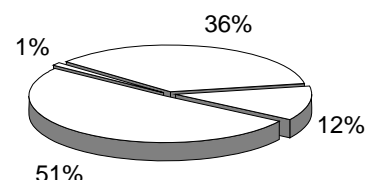
Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

■ City of Fargo FargoDome Permanent Fund Actual Asset Allocation – June 30, 2008

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	\$ 5,812,495	36%	
Domestic Small Cap Equity	1,902,155	12%	
Fixed Income	8,210,790	51%	
Cash Equivalents	168,054	1%	
TOTAL FUND	\$ 16,093,494	100%	-6.25%



NORTH DAKOTA CULTURAL ENDOWMENT FUND

■ ND Cultural Endowment Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The North Dakota Cultural Endowment Fund (Fund) was created by the State Legislature in 1979 and is governed by NDCC 54-54-08.2.

The Fund was established “to improve the intrinsic quality of the lives of the state’s citizens now and in the future through programs approved by the council on the arts.” Such programs must:

1. Increase cultural awareness by the state’s citizens through programs in arts, crafts, theater, ethnic and folk arts, literature, journalism, public media, historic preservation and interpretation, visual arts, and architecture.
2. Make the items named in #1 above more available to the state’s citizens.
3. Encourage the development of talent in the areas named in #1 above within the state.
4. Preserve and increase understanding of North Dakota’s heritage and future.

The goals of the Fund are:

- To create a vehicle through which the North Dakota Council on the Arts can secure private and public funds to enhance existing programs;
- And to provide a stable funding source for the Council.

Sources of funding for the Fund are private donations and periodic General Fund appropriations. The current principal balance that must be maintained in the Fund is \$150,000. Disbursements from the Fund will amount to approximately \$5,000 per year for fellowship grants.

Responsibilities and Discretion of the State Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund’s assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money

manager has been retained, the SIB’s role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives of the Fund reflect the long-term nature of the Fund, but also the low risk tolerance and shorter-term liquidity needs. Operating and statutory considerations shape the Funds policies and priorities as outlined below:

Objective #1: Investment income is needed to provide balance in investment return sources. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge. Capital growth will be sought through investment in equities.

Objective #3: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations. Cash equivalent investments will be used to achieve this objective.

Objective #4: The risk of violating the mandated minimum balance requirement of \$150,000 is to be minimized. This will be achieved by an asset allocation consistent with this objective.

Standards of Investment Performance

The Fund’s investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 33.75% S&P 500 domestic stock index, 11.25% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 37% Lehman Aggregate domestic bond index, 5% NCREIF Total real estate index, and 3% 90-day Treasury bills.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
- c. Over 10 year and longer time periods the Fund should match or exceed the expected

7.26% rate of return based on Callan Associates' 2005 market projections. Expected risk for the period, measured by standard deviation, is 10.44%.

Policy and Guidelines

The asset allocation of the Cultural Endowment Fund is established by the North Dakota Council on the Arts, with input from the SIB. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Large Cap Domestic Equities	33.75%
Small Cap Domestic Equities	11.25%
International Equities	10.00%
Domestic Fixed Income	37.00%
Real Estate	5.00%
Cash Equivalents	3.00%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
- No funds shall be borrowed.
- No unhedged short sales or speculative margin purchases shall be made.

f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as "The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

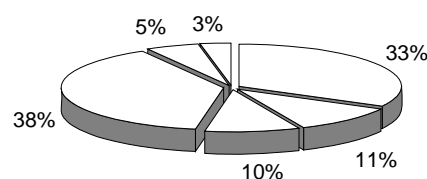
Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

■ **ND Cultural Endowment Fund Actual Asset Allocation – June 30, 2008**

<u>Asset Allocation</u>	<u>Market Value</u>	<u>Percent of Total</u>	<u>One Year Return</u>
Domestic Large Cap Equity	\$ 87,992	33%	
Domestic Small Cap Equity	28,747	11%	
International Equity	25,659	10%	
Fixed Income	104,248	38%	
Real Estate	14,100	5%	
Cash Equivalents	8,447	3%	
TOTAL FUND	\$ 269,193	100%	-7.59%



NORTH DAKOTA BUDGET STABILIZATION FUND

■ ND Budget Stabilization Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The Budget Stabilization Fund (Fund) is a special fund created in 1987 under Chapter 54-27.2 of the North Dakota Century Code used to deposit general fund moneys in excess of appropriations. Notwithstanding any other provision of law except sections 54-27.2-01 and 54-27.2-02, any amount in the state general fund in excess of \$100,527,369 was required to be transferred by the state treasurer to the budget stabilization fund from the general fund on July 1, 2007. This transfer will provide for a total of \$200,000,000 in the budget stabilization fund for the biennium beginning July 1, 2007 and ending June 30, 2009. The state investment board shall supervise investment of the budget stabilization fund in accordance with chapter 21-10.

Any interest or other budget stabilization fund earnings must be deposited in the fund. Any amounts provided by law for deposit in the fund and any interest or earnings of the fund which would bring the balance in the fund to an amount greater than five percent of the current biennial state general fund budget, as finally approved by the most recently adjourned special or regular session of the legislative assembly, may not be deposited or retained in the fund but must be deposited instead in the state general fund.

If the director of the office of management and budget projects that general fund revenues for the biennium will be at least two and one-half percent less than estimated by the most recently adjourned special or regular session of the legislative assembly, and if the governor orders a transfer, the state treasurer shall transfer the appropriate funds from the budget stabilization fund to the state general fund to offset the decrease in general fund revenues. The amount transferred from the budget stabilization fund upon order of the governor may not exceed the difference between an amount two and one-half percent below the general fund revenue projections for the biennium and the general fund revenue projections for the biennium by the director of the office of management and budget.

Responsibilities and Discretion of the State Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives of the Fund reflect the long-term nature of the Fund, but also the low risk tolerance and shorter-term liquidity needs. Operating and statutory considerations shape the Funds policies and priorities as outlined below:

Objective: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations. Cash equivalent investments will be used to achieve this objective.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

Policy and Guidelines

The asset allocation of the Budget Stabilization Fund is established by the Office of Management and Budget, with input from the SIB. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Cash Equivalents & CDs	Minimum of 50%
Other Fixed Income	Maximum of 10%
Absolute Return Strategies	Maximum of 10%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
- No funds shall be borrowed.
- No unhedged short sales or speculative margin purchases shall be made.
- Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as "The investment or commitment of public pension fund money

for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

- Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

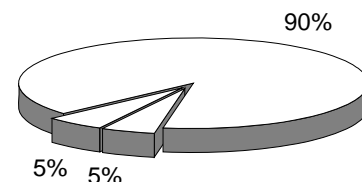
Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

■ ND Budget Stabilization Fund Actual Asset Allocation – June 30, 2008

Asset Allocation	Market Value	Percent of Total	One Year Return
Fixed Income	\$ 10,204,050	5%	
Absolute Return Strategies	10,637,027	5%	
Cash Equivalents & CD's	178,031,445	90%	
TOTAL FUND	\$ 198,872,522	100%	0.01%



RETIREE HEALTH INSURANCE CREDIT FUND

■ Retiree Health Insurance Credit Fund Investment Objectives and Policy Guidelines

Plan Characteristics and Constraints

The North Dakota Public Employees Retirement System (NDPERS) Retiree Health Insurance Credit Fund was established in 1989 to provide for prefunding of premiums for medical coverage to state employees and employees of participating political subdivisions in accordance with Chapter 54-52.1 of the North Dakota Century Code. The plan is administered by a seven member Board of Trustees (the Board). The Chair is appointed by the governor, three members are elected by the active members of the plans, one member is elected by the retired members, one is appointed by the Attorney General and the seventh member is the State Health Officer or their designee.

The NDPERS plan is a defined benefit program that provides for a partial payment of a retiree's medical insurance premium based on the number of years of service.

Funding for the NDPERS plan is provided by a monthly employer contribution of one percent of payroll. On a monthly basis, benefit payments are netted out against contributions and the balance forwarded to the trust's custodian for investment.

Each year the NDPERS Board has an actuarial valuation performed. The current actuarial assumed rate of return on assets for the plan is 8.0%.

Responsibilities and Discretion of the State Investment Board (SIB)

Aggregate plan contributions plus earnings, minus allowable expenses constitute the Fund. The Board is charged by NDCC chapters 54-52, 21-10-02, and 39-03.1 to establish policies for the investment goals and asset allocation of the Fund. The State Investment Board (SIB) is charged with implementing the asset allocation as promptly and prudently as possible in accordance with Board's policies by investing the assets of the Fund in the manner provided in the prudent investor rule, which provides:

Fund fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in

accordance with the respective funds' investment goals and objectives. (NDCC 21-10-07)

The SIB may delegate investment responsibility of the Fund or any portion of the Fund to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy is supervisory not advisory.

The SIB may at its discretion, pool the assets of the Fund with another fund or funds having similar investment objectives and time horizons in order to maximize returns and minimize costs. In pooling fund assets the SIB will establish asset class pools it deems necessary to achieve the specific quality, diversification, restrictions, and performance objectives subject to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing the selection criteria, determining the performance measures, and retaining all fund money managers. SIB is also responsible for the selection and retention of any investment consultants that may be employed in the investment of the Fund assets.

Delegation of Authority

Management responsibility for NDPERS funds not assigned to the North Dakota State Investment Board (SIB) in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, which must establish written policies and procedures for the operation of the NDPERS funds, consistent with this investment policy.

Such procedures must provide for:

1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1) (a).
2. Investment diversification, investment quality, qualification of money managers, and amounts to be invested by money managers pursuant to NDCC 21-10-02.1(1)(e). In developing these policies it is understood:
 - a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
 - b. The use of derivatives will be monitored to ensure that undue risks are not taken by the money managers.
 - c. All assets must be held in custody by the SIB's master custodian or such other custodians as are selected by the SIB.
3. Guidelines for the selection and redemption of investments will be in accordance with NDCC 21-10-02.1(1) (d).

4. The criteria for making decisions with respect to hiring, retention, and termination of money managers will be clearly defined. This also includes selecting performance measurement standards, consultants, report formats, and frequency of meetings with money managers.

All participants in the investment process must seek to act responsibly as custodians of the public trust.

Investment Goals

The investment goals of the Fund have been established by the NDPERS Board based upon consideration of the Board's strategic objectives and a comprehensive review of the current and projected financial requirements. These goals are to be viewed over the long term.

- Goal #1 Accumulate sufficient wealth through a diversified portfolio of investments which will enable the State of North Dakota to pay all current and future retirement benefits and expense obligations of the Fund.
- Goal #2 To obtain an investment return in excess of that needed to allow for increases in a retiree's credit to maintain the purchasing power of their benefit.

Investment Performance Objective

The NDPERS Board will seek to make investments that generate sufficient return to meet the goals outlined in this policy. The objectives established in this section are in accordance with the fiduciary requirement in federal and state law.

It is in the best interest of NDPERS and its beneficiaries that performance objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Statement of Investment Goals, Objectives and Policies.

- a. The fund's rate of return, over the long term, should equal that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
- c. Over 10-year and longer periods the fund should match or exceed the expected rate of return projected in the most recent asset/liability study without exceeding the expected risk for the period as measured by standard deviation.

Asset Allocation

In recognition of the plan's performance objectives, benefit projections, and capital market expectations, the NDPERS Board has established the following asset allocation:

Date of Last Asset Allocation Study: NDPERS Board Approved December 2005 – SEI Corporation

Large Cap Domestic Equities	35%
Small Cap Domestic Equities	15%
International Equities	15%
Domestic Fixed Income	35%

Expected Return	9.4%
Standard Deviation of Returns	10.6%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

Restrictions

- A. No transaction may be made which threatens the tax exempt status of the Fund.

Social Investing is defined as "The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

- B. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

Economically targeted investing is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

- C. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

The Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.

- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

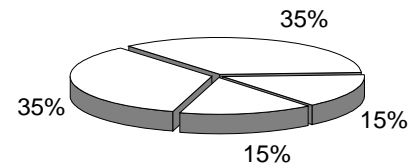
Internal Controls

The SIB must have a system of internal controls to prevent losses of public funds arising from fraud or

employee error. The controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

■ **Retiree Health Insurance Credit Fund** **Actual Asset Allocation – June 30, 2008**

<u>Asset Allocation</u>	<u>Market Value</u>	<u>Percent of Total</u>	<u>One Year Return</u>
Domestic Large Cap Equity	\$ 14,138,251	35%	
Domestic Small Cap Equity	5,934,705	15%	
International Equity	6,110,015	15%	
Fixed Income	13,823,725	35%	
TOTAL FUND	\$40,006,696	100%	-14.19%



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